Ministry of Housing,
Communities &
Local Government

Rents for social housing from 2020-21

A consultation paper

September 2018
Ministry of Housing, Communities and Local Government

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Scope of the consultation

Topic of this consultation:	This consultation seeks views on our proposed direction from the Secretary of State to the Regulator of Social Housing on social housing rents from April 2020 onwards. The consultation covers two areas in particular: • bringing local authority registered providers within the scope of the Regulator of Social Housing's rent standard • permitting registered providers to increase rents by up to CPI+1% each year
Scope of this consultation:	We are proposing to direct the Regulator of Social Housing to set a regulatory standard on rents that will apply to registered providers of social housing. This term encompasses: • private registered providers (most of which are housing associations) • local authority registered providers (i.e. local authorities with retained housing stock) Section 197 of the Housing and Regeneration Act 2008 gives the Secretary of State the power to direct the Regulator of Social Housing to set a standard on rent, and about the content of that standard. Once formally issued, a direction is binding on the Regulator. We propose to use this power to issue a new direction to the Regulator on rent. The proposed direction has been published alongside this consultation.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	We have assessed the impact of this policy and estimate it to be below the threshold of requiring a full impact assessment. However, for purposes of transparency, we have produced an assessment of impact – this is annexed to this consultation (see Annex B).

Basic Information

To:	This consultation will be of particular interest to tenants of social housing, registered providers of social housing, investors in social housing, and their representative bodies. Before giving a direction, we are obliged by law to consult the Regulator of Social Housing, the Greater London Authority, the Charity Commission and bodies representing the interests of local housing authorities, registered providers, and tenants of social housing. We are also consulting Homes England. We have written to relevant bodies regarding this consultation.
Body/bodies responsible for the consultation:	The Affordable Housing Regulation and Investment Division in the Ministry of Housing, Communities and Local Government (MHCLG) is responsible for this consultation.
Duration:	This consultation will last for eight weeks from Thursday 13 September to Thursday 8 November 2018.
Enquiries:	For any enquiries about the consultation please email SocialHousingRents@communities.gov.uk.
How to respond:	**Please note that we are required by law to publish every response we receive to this consultation**. Therefore please ensure that your response does not include any material that you are not content for us to publish. Names, addresses and contact details of individual respondents will not be published. You may respond by completing an online survey at: https://www.surveymonkey.co.uk/r/Rents_for_social_housing Alternatively you can email your response to the questions in this consultation to: SocialHousingRents@communities.gov.uk Written responses should be sent to: Affordable Housing Regulation and Investment Division Ministry of Housing, Communities and Local Government Mailpoint B12 3rd Floor – Fry Building 2 Marsham Street London SW1P 4DF If you are responding by email or in writing, please use the response template that is available alongside this consultation on gov.uk.

	When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name - your position (if applicable) - the name of organisation (if applicable) - an address (including postcode) - an email address - a contact telephone number

Introduction

1. This is a consultation on a proposed direction from the Secretary of State to the Regulator of Social Housing (‘the Regulator’) on social housing rents from 1 April 2020 onwards. The draft direction is published alongside this consultation.

2. We are proposing to issue a new direction to ensure that, from 2020 onwards, the Regulator’s rent standard:

   - reflects our announcement in October 2017 that we intend to permit registered providers to increase their rents by up to CPI+1% each year, for a period of at least five years. This announcement recognised the need for a stable financial environment to support the delivery of new homes

   - applies to local authority registered providers (as well as to private registered providers). We are proposing that the rent standard should apply to local authority landlords to respond to the roll out of Universal Credit, as Universal Credit is not compatible with the current arrangements for controlling the welfare costs associated with local authority rents

3. The direction also sets out the basis on which social rents and affordable rents are set. The direction does not apply to the rents of tenants on high incomes who may be charged higher rents.

4. We are proposing to revoke the most recent direction to the Regulator on rents (issued in 2014) and replace it with this one. Although the proposed direction has no pre-determined end date, the government has made clear its intention that the CPI+1% policy should remain in place for a period of at least five years.

5. The proposed direction would require the Regulator, when setting its rent standard, to have regard to a separate MHCLG Policy Statement on Rents for Social Housing. A draft of this Policy Statement is published alongside this consultation. It sets out in more detail government policy for social housing rents from April 2020.

6. Subject to the outcome of this consultation, we intend to issue the final direction to the Regulator (with the supporting Policy Statement) later this year. The Regulator must then consult on a new regulatory standard on rent, with a view to bringing it into force from 1 April 2020.

7. We invite your views on the questions listed and the draft direction (including the supporting Policy Statement) by Thursday 8 November 2018.

Context

Background on the regulation of social housing

8. The statutory framework for social housing regulation is set out in the Housing and Regeneration Act 2008 (‘the 2008 Act’). In brief:

- the Regulator is responsible for regulating social housing provided by registered providers of social housing (‘registered providers’)

- the term registered providers encompasses:

    - local authorities with retained stock (‘local authority registered providers’)

    - other bodies that have registered with the Regulator (‘private registered providers’). Most private registered providers are housing associations

- ‘social housing’ comprises low cost rental accommodation (e.g. homes let at social rent or affordable rent) and low cost home ownership accommodation (e.g. shared ownership homes). Our proposed direction <u>does not</u> apply to low cost home ownership accommodation, or to shared ownership low cost rental accommodation

9. The Regulator has the power to set regulatory standards on a range of matters, including rents. Registered providers are required to comply with these standards. The Secretary of State has the power to direct the Regulator (a) to set standards; (b) about the content of those standards; and (c) to have regard to specified objectives when setting standards. This power of direction is limited to certain issues, including rents.

Background on social housing rent policy

10. Government policy on social housing rents seeks to achieve the right balance between several objectives:

- protecting tenants

- protecting taxpayers (by limiting the welfare costs associated with social housing rents)

- supporting the delivery of new social homes and the management and maintenance of existing properties

11. Most rented social housing properties are let at ‘**social rent**’. Social rents are set using a government formula. This creates a ‘formula rent’ for each property, which is calculated based on the relative value of the property, the size of the property and relative local income levels. Landlords have flexibility to set rents up to 5% above the formula rent (10% in the case of supported housing) – this is known as the ‘rent

flexibility level'. Formula rent is also subject to rent caps, which vary according to the size of the property.

12. In 2011, the government introduced '**affordable rent**' which permits rents (inclusive of service charges) to be set at up to 80% of market rent (inclusive of service charges). The introduction of affordable rent made it possible to build more homes for every pound of government investment, allowing more people in housing need to have access to a good quality home at a sub-market rent. Landlords can only let new properties at affordable rent where certain conditions apply. Within the terms of the government's affordable homes programmes, existing vacant properties can be converted from social rent to affordable rent in certain circumstances.

13. From April 2015, the government made it possible for social landlords to charge a full market rent where a social tenant household has an annual income of at least £60,000. This was designed to allow landlords to make better use of their social housing, rather than requiring them to provide sub-market rent homes to households with relatively high incomes.

14. Government policy has also applied to annual changes in social rent and affordable rent levels. Since April 2016, the Welfare Reform and Work Act 2016 has required social landlords to reduce their rents by 1% each year for four years (the 'social rent reduction'). This applies to both social rent and affordable rent properties. The social rent reduction is designed to help put welfare spending on a more sustainable footing and ensure that the social housing sector plays its part in helping to reduce the deficit. The social rent reduction is subject to a number of exceptions. Most of these exceptions apply for all four years of the reduction, although some only applied for the first year.

15. Before the social rent reduction took effect, rent policy was applied to local authority and private registered providers in different ways. Most social housing rents charged by private registered providers have been regulated by the Regulator of Social Housing, in accordance with a direction issued by the Secretary of State. By contrast, local authority rents have not been regulated. Instead, they have been indirectly controlled through the Housing Benefit system (as explained below). Government has also issued guidance to local authorities on the rents they should charge.

Background on Housing Benefit and Universal Credit

16. Housing Benefit helps those on low incomes to pay their rent. For social tenants, the calculation of Housing Benefit reflects the actual rent charged[1] – subject to the removal of the spare room subsidy, and the total benefit cap.

17. Local authority registered providers are subject to a control known as the 'Limit Rent', which reflects rent policy. To determine how much Housing Benefit subsidy an authority receives (on behalf of their tenants who claim it), their Limit Rent is

[1] This is different to the position for tenants in the private rented sector, where the amount of housing benefit payable is capped by the Local Housing Allowance, depending on the size of the household and where the property is located.

compared to their average actual rent, and where the average rent is higher, Housing Benefit subsidy is proportionately reduced.

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

19. 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. Consequently, the Limit Rent will not control welfare costs in respect of tenants receiving Universal Credit. This is one of the issues that are addressed by this consultation.

Our proposed direction

Overview

20. We are proposing to direct the Regulator of Social Housing to set a new standard on rent for registered providers, to come into effect from 1 April 2020. We are proposing to revoke the previous direction to the Regulator on rents that was issued in 2014.

21. The proposed direction sets out specific rules relating to levels of rent that the Regulator would be obliged to include in its rent standard. The direction would also require the Regulator to have regard to a separate MHCLG Policy Statement on Rents for Social Housing. A draft of this Policy Statement is published alongside this consultation.

22. The proposed direction would require the Regulator to apply its new rent standard to registered providers' low cost rental accommodation, as defined by section 69 of the 2008 Act. This would be subject to certain exceptions. The rent standard would not apply to:

- accommodation that is let to a high income social tenant household. This reflects the approach taken in the previous direction to the Regulator and our previous rent guidance to local authorities (both issued in 2014). We are not proposing to make any changes to this approach

- other categories of accommodation to which rent policy does not apply – as set out in chapter 5 of the draft Policy Statement

Applying the rent standard to local authorities

23. We are proposing to direct the Regulator to apply its rent standard to local authority registered providers. Private registered providers will continue to be subject to rent regulation.

24. This proposal has been prompted by changes within the welfare system. As noted above, the existing Limit Rent mechanism does not control welfare costs where local authority tenants receive Universal Credit. An alternative mechanism is needed to control these costs, to ensure that taxpayers continue to be protected.

25. For private registered providers, rent regulation already serves this purpose – albeit in a different way to Limit Rent. Rent regulation caps the amount of rent that private registered providers may charge, and by extension limits the amount of Housing Benefit or Universal Credit that recipient tenants need to meet the cost of their rents. (By contrast, Limit Rent directly caps the amount of Housing Benefit subsidy that is available to meet the cost of local authority rents.)

26. We therefore propose to extend rent regulation to local authority registered providers. Regulating local authorities' rents would have the advantage of controlling welfare

costs to protect taxpayers and protecting local authority tenants from rent increases that are inconsistent with the government’s rent policy. This would align more closely with the protection available to tenants of private registered providers.

27. Since 2016, the Welfare Reform and Work Act has required local authority registered providers to comply with the same rent reduction policy as private registered providers. Extending rent regulation to local authority registered providers continues this alignment between local authorities and private registered providers.

28. We propose that the rent standard should apply the same requirements to both local authorities and private registered providers. This reflects the general principle that social tenants should receive a similar level of protection. Paragraph 37(c) below explains how this principle will apply to local authority social rent properties with rents that exceed the rent flexibility level.

29. The Department for Work and Pensions intends to amend the Housing Benefit Subsidy Order to no longer apply the Rent Rebate Subsidy Limitation Scheme once the rent standard is applied to local authority registered providers. Local authorities will continue to claim housing benefit subsidy as they do now, but this will no longer be subject to Rent Rebate Subsidy Limitation.

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

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

Permitting annual rent increases of up to CPI+1%

30. As noted above, the Welfare Reform and Work Act 2016 requires registered providers to reduce their social housing rents by 1% each year for four years. This is designed to help put welfare spending on a more sustainable footing and ensure that the social housing sector plays its part in helping to reduce the deficit.

31. The Housing White Paper (published in February 2017) committed that the government would set a rent policy for registered providers for the period beyond 2020, to help ensure that they have the confidence they need about their future income to plan ahead.

32. In October 2017, we announced that we intend to permit registered providers to increase rents on social rent and affordable rent properties by up to CPI+1% each year from 2020, for a period of at least five years. This proposal recognises the need for a stable financial environment to support the delivery of new homes by registered providers. This announcement has been widely welcomed by the social housing sector. The government will be looking to the sector to make the best possible use of its resources to help provide the homes this country needs.

33. A significant proportion of social housing rents are met by Housing Benefit or Universal Credit. Nevertheless, we recognise that this proposal will result in social tenants who pay some or all of their own rent paying more than they would have

done had the social rent reduction been extended beyond 2020. These tenants will of course benefit from the social rent reduction until then. We believe that reverting to the previous CPI+1% policy strikes the right balance between the interests of existing social housing tenants who pay their own rent, the need to build more homes, and the importance of ensuring that providers have sufficient income with which to manage and maintain their properties.

34. Our draft Policy Statement makes clear that CPI+1% is a ceiling (rather than an expectation) for registered providers' annual rent increases. Providers will be free to apply a lower increase, or to freeze or reduce rents, if they wish to do so, and they should consider local circumstances when making these decisions.

35. Some registered providers will not have completed the four year rent reduction by 31 March 2020 because their rent year does not begin on 1 April. For the avoidance of doubt, the introduction of the CPI+1% policy from 1 April 2020 in no way overrides these providers' statutory obligation to complete the social rent reduction.

36. Our proposed direction makes special provision for the first rent year after the social rent reduction period. In that year, the CPI+1% limit will apply to the *average* weekly rent in the final year of the rent reduction (the draft direction refers to this as the '2020 limit'). This is intended to smooth the transition from the Welfare Reform and Work Act regime to the new rent standard. In subsequent years, the standard will simply require providers not to increase weekly rent by more than CPI+1% per year (this matches the regulatory requirement that applied before the social rent reduction took effect).

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

Social rent

37. We are not proposing to make any major changes to the rules relating to social rent that were set out in our previous direction to the Regulator (issued in 2014). However, we would like to draw consultees' attention to the following:

(a) Our proposed direction and supporting Policy Statement make clear that formula rent (with the 5% or 10% flexibility level, and subject to the rent caps) is a *limit* on the initial rent for a social rent property. Registered providers will not be required to charge the maximum formula rent if they prefer to set the rent at a lower level.

(b) We intend to specify the maximum annual rent increase that a registered provider may apply where a social rent is above the rent flexibility level. Our previous direction to the Regulator (as well as our guidance to local authorities) stated that increases must be 'less than CPI+1%' in these circumstances, until the rent is brought within the rent flexibility level. In the new direction, we propose to specify that the maximum annual increase is CPI, again until the rent is brought within the flexibility level. This reflects the approach that was previously suggested by the Regulator in its rent standard guidance.

(c) Our proposed direction applies the same policy on social rent to local authorities and housing associations. Prior to the Welfare Reform and Work Act 2016, local authority rents were subject to guidance rather than regulation. Although this guidance was clear that local authorities should adhere to government rent policy, it is possible that a very small number of local authorities might have charged higher rents on their social rent properties. Our proposed direction would require these rents to be reduced to formula rent (with the 5% or 10% flexibility level, and subject to the rent caps) when the properties are re-let. The direction would also cap annual increases for any rents that exceed the rent flexibility level at CPI flat, rather than CPI+1%. Again, this will ensure a consistent approach across local authorities and private registered providers.

(d) The calculation of formula rent from April 2020 will differ to some extent depending on the type of property concerned. This takes account of whether the property was of a type that was excepted from the social rent reduction, either for the full four years or just the first year. This is explained in Appendix A of the draft Policy Statement (see paragraph 9).

(e) Our draft Policy Statement seeks to clarify the circumstances in which social rent properties may be re-valued for the purposes of rent setting (see paragraph 2.24), and the restrictions on converting them to other rent levels (see paragraph 2.29-2.30).

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

Affordable rent

38. We are not proposing to make major changes to the rules relating to affordable rent that were set out in our previous direction to the Regulator. However, we would like to draw consultees' attention to the following:

(a) We are proposing to change the arrangements for re-setting the rent on affordable rent properties. We plan to retain the requirement in the existing rent standard that registered providers must re-set the rent, ensuring that it remains no more than 80% of market rent, each time the accommodation is let to a new tenant or re-let to an existing tenant (except where this is the result of a probationary tenancy coming to an end). However we propose that, where registered providers are re-setting the rent as a result of re-letting accommodation to an existing tenant, they should not be permitted to increase the rent by more than CPI+1% per annum. This change is intended to protect existing tenants from excessive rent increases after 2020 that could otherwise result from the combination of the social rent reduction and increases in market rents over the preceding four years;

(b) Our proposed direction includes changes to the circumstances in which registered providers may charge affordable rent. These changes reflect the proposal to apply the rent standard to local authority registered providers; and

(c) As with social rent, our draft Policy Statement seeks to clarify the restrictions on converting affordable rent properties to other rent levels (see paragraph 3.17).

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

Exemptions from the rent standard

39. Our proposed direction would allow the Regulator to exempt a private registered provider from one or more requirements in the rent standard. The Regulator would be able to do this if it considers that complying with the requirement(s) would jeopardise the private registered provider's financial viability. This is very similar to the existing threshold for exempting private registered providers from the social rent reduction (as set out in section 25 of the Welfare Reform and Work Act 2016). The process for private registered providers to apply for an exemption will be set out separately by the Regulator.

40. It would not be appropriate to apply this to local authority registered providers, as the Regulator's requirements on financial viability do not apply to them. Instead, the rent standard will not apply to categories of housing that are listed in chapter 5 of our draft Policy Statement, which include 'Relevant Local Authority Accommodation'. Accommodation is Relevant Local Authority Accommodation if the Secretary of State has agreed that it would be inappropriate to apply government rent policy to the accommodation because this would cause the authority unavoidable and serious financial difficulty.

41. The process for local authorities to seek the Secretary of State's agreement will be set out separately by MHCLG.

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

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

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation will be published to comply with section 197 of the Housing and Regeneration Act 2008. Names of individual respondents will not be published. In addition, responses may be published or disclosed in accordance with the access to information regimes (primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

Due to the legal requirement to publish responses, we are not able to guarantee confidentiality in respect of your response. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A: personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest, i.e. a consultation. We have a statutory duty to consult before issuing a direction to the Regulator of Social Housing.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. The data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in terms of data protection will not be compromised by this.

7. Your personal data will not be used for any automated decision making.

8. We use a third party provider (Survey Monkey) to gather data. Once we have completed our analysis of the responses later this year, your data will be moved to a secure government IT system.

Annex B: assessment of impact

Summary: interventions and options

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

1. Under the Welfare Reform and Work Act 2016, social housing rents for both housing associations and local authorities will be reduced by 1% per year for four years from 2016 (subject to certain exceptions). A new social housing rent policy needs to be set for April 2020 and beyond.

2. The government provides social housing for equity reasons. The government is responsible for setting social housing rent policy. This is because of the need to ensure that there are adequate controls on Housing Benefit/Universal Credit expenditure, to ensure rents are affordable, and also to protect tenants from unreasonable rent increases – especially in circumstances where they are responsible for payment of their rent themselves.

What are the policy objectives and intended effects?

3. To set a new social housing rent policy which strikes a fair balance between the need to maintain existing affordable homes and the provision of additional affordable housing; the interests of existing and potential social housing tenants; and the cost to taxpayers through Housing Benefit/Universal Credit.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (Further details in following sections)

4. Five policy options were considered ranging from permitting an annual increase of up to CPI+2% through to the continuation of the 1% rent reduction.

5. The preferred option is CPI+1%. This option is neutral in terms of delivery of affordable homes and will have no Housing Benefit impact, as a return to the CPI+1% formula (which was in effect prior to social rent reduction) is the counterfactual position. The Office for Budget Responsibility, as part of their work on spending forecasts, has factored in a return to CPI+1% after the current rent reduction expires.

6. This therefore achieves the government's objective of striking a fair balance between supporting investment in new and existing affordable housing and the interests of existing and potential tenants, taking account of the proportion of social tenants who receive Housing Benefit or Universal Credit.

Will the policy be reviewed?

7. This policy will run until at least 2025. In order to make changes to the policy from 2025, it will be necessary to consult on a rent direction to the Regulator from around 2023.

Introduction

8. There are around 1,700 registered social housing providers in England that are registered with the Regulator of Social Housing. This includes both local authorities and housing associations. Housing associations currently own 2.7 million homes. Of these, around 2.5 million are sub-market rent properties. For local authorities the figure is 1.61 million[2] representing around 40% of the total stock. With some exceptions, the rents that are charged on these roughly 4 million properties are within the scope of the government's social housing rent policy.

Problem

9. Under the Welfare Reform and Work Act 2016 social housing rents for both housing associations and local authorities are reducing by 1% per year for four years from 2016. A new social housing rent policy needs to be set for April 2020 and beyond.

10. In considering the setting of social rent policy from 2020 there are a number of aspects that need to be taken into account:
    - impact on tenants who pay some or all of their rent from their own resources
    - financial impact on landlords and their ability to provide new homes, maintain their existing stock and deliver services to tenants
    - cost to taxpayers in Housing Benefit/Universal Credit

11. Tenants over the four years up to 2020 will have seen their rents reducing by the required 1% set by the Welfare Reform and Work Act 2016 (subject to certain exceptions). Any social housing rent policy needs to be fair - considering the potential increases that tenants may face but also taking into account the services they receive from their landlord such as repairs and maintenance of the property. It also needs to consider the impact on potential tenants of social housing.

12. Housing associations are responsible for the management and maintenance of around 2.5 million affordable homes and are the prime source of the provision of new affordable housing. Rental income plays a significant role in funding these activities.

13. Like housing associations, local authorities provide new homes and maintain their existing stock. They are responsible for around 1.6 million dwellings. Before the rent reduction took effect in 2016 the formula governing annual rent increases was advisory for local authorities although the formula was reflected in the Rent Rebate Subsidy Limitation system. This meant that while local authorities could set rents at a level of their

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2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/582793/Local_Authority_Housing_Statistics_England_year_ending_March_2016.pdf

choosing, if their average rent was higher than that set out in the guidance (the Limit Rent amount), they would have to find the shortfall themselves as government would only provide Housing Benefit Subsidy up to the Limit Rent amount. Under Universal Credit, the benefit is paid directly to the tenant with no subsidy payment going to the local authority. Government recognises the importance of rental income to both housing association and local authority plans.

Rationale for intervention (why is government involved)?

14. The government provides social housing for equity reasons. The government is responsible for setting social housing rent policy. This is because of the need to ensure that there are adequate controls on Housing Benefit/Universal Credit expenditure, to ensure rents are affordable, and also to protect tenants from unreasonable rent increases.

15. The Housing White Paper published in February 2017 gave an undertaking that government would provide clarity over rent policy for the period beyond 2020 to help landlords borrow against future income and give them the confidence they need to plan ahead.

Policy objective

16. The government wishes to strike a fair balance between the interests of existing and potential social housing tenants, the cost to taxpayers through Housing Benefit/Universal Credit and the need to maintain existing affordable housing and the provision of additional affordable housing.

17. In October 2017 the government announced plans to consult on permitting social housing landlords to increase rents by up to CPI+1% for 5 years from 2020. This announcement recognised the need for a stable financial environment to support the delivery of new homes. We will be looking to the sector to make the best possible use of its resources to help provide the homes this country needs.

18. The new rent policy will permit annual rent increases on both social rent and affordable rent properties of up to CPI+1% from 2020, for a period of at least five years in both housing association and local authority properties. Rents may not increase by more than CPI (at September of the previous year) + 1% in any year. This limit is a ceiling and providers may apply a lower annual increase (or freeze or reduce rents) if they wish to do so. Housing associations and local authorities are expected to consider the local market context when deciding whether to implement a rent increase and the level of that increase, as well as the levels of Housing Benefit or Universal Credit that are available to claimant households who might occupy their properties.

Description of options considered (including do nothing)

19. This assessment compares five policy options for rent policy in the period 2020-25. These options range from extending the 1% rent reduction to permitting annual increases of up to CPI+2%. As can be seen from the table below these options produced a range of

results with regard to the expectations on additional housing supply and net cost to Housing Benefit.

20. The preferred option is CPI+1%. This option is neutral in terms of delivery of affordable homes, as the working assumption has been that the default position would be a return to the CPI+1% regime that was in place before the rent reduction was introduced.

21. The Office for Budget Responsibility as part of their work on future forecasting had factored in a return to CPI+1% in their spending forecasts. Therefore the preferred option has no impact compared to the counterfactual and will also be neutral in terms of the Housing Benefit impact.

22. The Office for Budget Responsibility has also factored in a return to CPI+1% after the current rent reduction expires and this is therefore already built into the economic forecasts used at fiscal events.

23. There were three main factors in the consideration of the policy options:

- potential impact on development by housing associations and local authorities
- potential net cost to Housing Benefit
- potential costs to tenants

Costs and benefits

24. The following options were considered and the increase / decrease compared to CPI +1% counterfactual is shown in the table below:

Rent increase option	Increase/decrease in development (HA and LA) (2020/21 to 2024/25)	Increase/decrease in sector rental income (HA and LA, 2020/21 to 2024/25)*		Increase/decrease in Housing Benefit cost (HA and LA)
		HA	LA	
CPI+2%	30,000	+£2.6bn	+£1.0bn	+£2.2bn
CPI+1%	0	0	0	0
CPI flat	-30,000	-£2.7bn	-£1.0bn	-£2.4bn
0% (rent freeze)	-85,000	-£8.0bn	-£3.0bn	-£6.9bn
1% cut	-105,000	-£9.5bn	-£3.8bn	-£8.4bn

*met through a combination of Housing Benefit/Universal Credit and rent paid by tenants

25. The housing association development estimates are made using a model devised by the Office for Budget Responsibility for fiscal forecasting purposes. This modelling was performed in summer 2017 and therefore uses the economic and other policy forecasts valid at that time.

Commentary on option impacts

Option 1 – **Increase rents by CPI+2%** annually

26. This option would result in a significant increase in rents being charged to tenants. It would also result in additional Housing Benefit costs (estimated at £2.2 billion over the period 2020-25).

27. This option should result in more house building, as well as generating more income to maintain existing properties. The vast majority of the development impact (in all options) is from housing associations rather than local authorities (given the substantial difference in scale of their current levels of development).

28. The government has announced further support for council housebuilding by raising the Housing Revenue Account borrowing cap by a total of up to £1 billion in areas of high affordability pressure for local authorities who are ready to start building new homes. Local authorities are able to bid for increases in their caps from 2019-20 to 2021-22.

Option 2 - **Increase rents by CPI+1%** annually

29. This option would result in higher rents than options 3-5 (but lower rents than option 1). However, our published Impact Assessment for the social rent reduction estimated that – by the end of the four year reduction period – rents will be 12% lower than they would have been had the CPI+1% formula continued to apply throughout that period. This means that existing social housing tenants' rents will in most cases be starting at a lower base point than would otherwise have been the case. Housing benefit/Universal Credit (where available) should mitigate the impact of rent increases on households.

30. Compared to options 3-5, this option would give landlords more rental income with which to maintain and manage their existing homes and to support the delivery of new homes. This could benefit existing and potential tenants.

31. Housing associations use their rental income to manage and maintain their housing but also to provide a wide variety of services for their tenants. They also use the income to service the debt on the loans they have in respect of providing new affordable homes.

32. Our preferred option is neutral in terms of delivery of affordable homes, for the reasons explained above. It will however enable housing associations and local authorities to plan ahead in terms of investment in the provision of affordable housing by providing certainty on rent policy from 2020, for 5 years, without increasing Housing Benefit costs.

33. In order to deliver the ambition on increasing housing supply local authorities have a role to play in maintaining their existing stock but also to step up their provision of new homes. Many have ambitions to do so with more council homes being built in England in the last seven years than between 1997 and 2010[3]. Like housing associations, our preferred

[3] 8,620 local authority dwellings were built between 2010/11 and 2015/16, compared with 2,920 between 1997/98 and 2009/10.

option for rent policy beyond 2020 provides local authorities with greater clarity about their future rents, and provides a stable financial environment to support future housebuilding plans.

34. To further support council housebuilding the government has announced that the Housing Revenue Account borrowing cap will be raised by a total of up to £1 billion in areas of high affordability pressure for local authorities who are ready to start building new homes. Local authorities are able to bid for increases in their caps from 2019-20 to 2021-22.

Option 3 – **Increase rents in line with CPI**

35. For tenants this option would limit their rental increases but may affect the extent and quality of services they receive from their landlord. It would yield Housing Benefit savings (estimated at £2.4 billion for the sector as a whole over the period 2020-25).

36. We estimate that this option could reduce development by around 30,000 homes over 2020-25 compared to the CPI+1% option. However, the impact could be worse than this, due to lenders, valuers and landlords themselves adjusting their long-term rental income assumptions down from the previous CPI+1% formula.

Option 4 - **Zero increase in rents (rent freeze)**.

37. Housing associations and local authorities use their rental income to maintain their existing stock and provide new homes. We estimate that using the option of not allowing any increase in rents could reduce development by around 85,000 in the period 2020-25 compared to the CPI+1% option. However, the impact could be worse than this, due to lenders, valuers and landlords themselves adjusting their long-term rental income assumptions down from the previous CPI+1% formula. The lack of any inflation-linkage is also likely to affect the confidence of landlords and lenders.

38. Tenants who pay their own rent would benefit financially from their rents not increasing, but the quality and extent of services they receive from their landlord may be affected.

Option 5 - **Continue to cut rents by 1% annually**

39. This option is likely to result in a significant reduction in house building. We estimate that housing associations could develop around 100,000 fewer homes in the period 2020-25 compared to the CPI+1% option. The actual impact could be worse than this, due to a combination of reduced borrowing capacity, higher borrowing costs and lower landlord risk appetite. Development by local authorities would be similarly affected. The lack of any inflation-linkage is also likely to affect the confidence of landlords and lenders. As can be seen from the table above the estimated rental income reduction would be £13.3 billion.

40. In addition landlords would also have less money with which to manage and maintain their properties and provide services to tenants.

41. As with the option above, tenants who pay their own rent would face lower costs than in the counterfactual – but the quality and extent of the service they receive from their landlord may be affected.

Why is CPI+1% the counterfactual position?

42. The social rent reduction is a time limited measure. The legislation that implemented it (part of the Welfare Reform and Work Act 2016) only requires landlords to reduce rents for four years. After that point, the legislation will cease to have effect. The Regulator’s rent standard remains in effect for housing associations throughout this period, and this caps annual rent increases at CPI+1% (although in most cases this is superseded by the legislation). Similarly, the existing government guidance for local authorities is to limit annual rent increases to no more than CPI+1% - again this has been superseded by the legislation but has not been revoked. Consequently if we do nothing, the CPI+1% policy will apply once landlords have completed the four year rent reduction. We are issuing a new direction to the Regulator to reflect the CPI+1% policy and ensure a smooth transition from the rent reduction legislation, as well as to require the Regulator to apply its rent standard to local authority landlords.

43. The Office for Budget Responsibility has also factored in a return to CPI+1% after the current rent reduction expires and this is therefore already built into the economic forecasts used at fiscal events.

Familiarisation costs

44. Restoring the CPI+1% limit should not result in any familiarisation costs for business, because (a) this restores policy and regulatory arrangements that will already be very familiar to private registered providers (including housing associations), as they were in place before the rent reduction came into effect; and (b) we anticipate that the Regulator will continue to issue annual notices to providers confirming each year’s maximum rent increase, based on the CPI figure in the September of the previous year.

Risks

45. There is a potential risk that housing associations and local authorities do not invest rental income in the provision of further affordable homes or the maintenance of their existing stock. However, housing associations are established for the social purpose of providing affordable housing, and local authorities’ use of rental income is subject to the Housing Revenue Account ringfence which prevents local authority rents from subsiding council tax. In addition, the regulatory framework requires them to maintain their homes in accordance with the Home Standard.

46. Welfare policy (through Housing Benefit /Universal Credit) affects social landlords’ actual rental income. We work closely with the Department of Work and Pensions on these issues.

Summary/preferred option with implementation plan

47. The CPI+1% option strikes a balance between government objectives on the development of additional affordable housing and welfare cost control. The CPI+1% option results in no increase in welfare spending beyond current forecasts. Tenants will face an increase in rents compared to the current rent reduction policy but this will be at the same rate as applied prior to that policy coming into effect in 2016. Housing Benefit/Universal Credit helps those on low incomes to pay their rent.