

Research Briefing

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Rent setting: Social housing (England)



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Summary

Rent convergence policy

In 2002, the Labour Government introduced a rent convergence policy under which, over a ten-year period, rents in social housing (local authority and housing association owned stock) were to be brought into alignment.

A rent formula was established with actual rents moving towards a national formula rent which took account of property values and local earnings relative to national earnings. A 'bedroom weighting' factor was applied to try to ensure rents better reflected the perceived value of the properties. Formula rents were increased each year by the Retail Prices Index (RPI) + 0.5%.

The Coalition Government continued this rent setting process with, initially, a revised target convergence date of 2015-16, subject to a maximum annual rent rise for an individual tenant of RPI + 0.5% + £2 per week.

A 10-year rent policy and cutting short convergence

During the 2013 Spending Round the Coalition Government announced that "from 2015-16 social rents will rise by the Consumer Price Index (CPI) plus 1% each year for 10 years." Following this, the Department for Communities and Local Government (DCLG) sent a [letter](#) (PDF) to housing bodies on 2 July 2013 in which plans to cut short the convergence policy were outlined.

Social landlords whose average rents had not reached target levels were concerned about implications for their ability to repay debt and invest in new and existing social housing stock. Overall, the certainty delivered by a 10-year rent settlement was welcomed.

Four years of rent reductions

The certainty of the 10-year settlement was short-lived. On 8 July 2015 [the Chancellor announced](#) (PDF) rents in social housing would be reduced by 1% a year for four years. The measure was forecast to save £1.4 billion by 2020-21, primarily in reduced Housing Benefit expenditure. Around 1.2 million tenants not in receipt of Housing Benefit in the social rented sector were expected to benefit by £700 per year (2015 prices).

This policy change was unexpected and greeted with some dismay by social landlords who had to model the impact on their business plans. The Office for Budget Responsibility (OBR) predicted an overall reduction in housing investment as a direct result of the policy. The measure was implemented through provisions contained in the Welfare Reform and Work Act 2016.

Rent policy 2020 to 2025

On 4 October 2017, DCLG [announced](#) “increases to social housing rents will be limited to the Consumer Price Index plus 1% for 5 years from 2020.” This marked a return to the rent setting approach which was to apply for ten years from 2015 before being replaced with rent reductions from April 2016.

The sector had been lobbying for a return to an inflation-linked settlement, so the announcement was welcomed. The [Policy statement on rents for social housing](#) (PDF) set out the Government’s policy on rents for social housing from 1 April 2020 onwards.

Most social housing tenants faced a rent increase of 4.1% in April 2022. The Resolution Foundation’s [Housing Outlook for Q4 2021](#) (PDF) observed that this would be “the largest rise for a decade.”

On 31 August 2022, [the Government opened a consultation exercise](#) seeking views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. The consultation focused on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024. The [Autumn Statement 2022](#) (PDF) announced rent increases would be capped at 7% in 2023-24, saving the average social rented tenant £200 over the year.

1 Rent restructuring and convergence under Labour

1.1 Background and rationale

The different rent levels charged by councils and private registered providers of social housing¹ has, historically, reflected when and where the housing was built over many decades; changes in the capital and revenue subsidies given to social landlords; and the different rent policies pursued. The Labour Governments of 1997-2010 wanted to see an end to ‘arbitrary’ differences between rents for similar properties within a locality, and between those for similar properties in neighbouring areas:

For example, in a report published in 2000, the Chartered Institute of Housing cited two adjoining London boroughs where one charged £15 more each week than its neighbouring borough for properties of a very similar standard. And in a large southern city there was a £24 gap in the rent charged each week by the local authority and a local registered social landlord for otherwise similar three bedroom homes. Tenants see that it is unfair when there is no apparent explanation for the pattern of rents in a locality, whether in terms of relative property quality, relative attractiveness of location or relative running costs.²

Then Minister for Housing, Sally Keeble, outlined the rationale behind rent restructuring during an adjournment debate in December 2001:

Our policy on rent restructuring is part of the Government's wider housing agenda. The aim is to close the gap between rents in different sorts of social housing and, as my hon. Friend said, to pave the way for greater choice for social housing tenants. That applies not just to different council properties in the same area but to different sorts of social housing tenure, because at present the perception that housing association rents are high can be a bar to people who might consider applying for that sort of housing. We want a sensible structure of rents so that tenants can choose whether to pay more for a better property or to save money by choosing a less popular property. To achieve that, we are establishing a common basis for social rents throughout England by linking rents to both the value and size of the property and to manual earnings in the area. The new rents must be affordable and we are

¹ Also referred to as housing associations and registered social landlords (RSLs).

² Department of the Environment, Housing and the Regions, [Quality and Choice: A decent home for all](#), (PDF) April 2000, para 10.13

linking them to local earnings to ensure that. They will not be market rents. Rents in the social sector throughout most of the country will generally remain well below what a tenant would pay for the property from a private landlord. I said that that will apply throughout most of the country, because some areas have very low demand and different trends in property prices.³

The Labour Government's policy was for all social landlords (local authorities and housing associations) to offer similar rents for similar properties, whilst maintaining substantial discounts to market rents.

Preparing for restructuring involved calculating the 'formula rent' which was the target rent figure for each individual council and housing association home for ten years' time (ie by 2011/12 initially). The formula rent was based on a combination of individual property values and average earnings in each area.⁴ Each year the Department (now the Department for Levelling Up, Housing and Communities, DLUHC) suggested a "guideline" rent level to which councils should move their rents to help them eventually reach their formula rents at the end of the ten-year period in 2011/12.⁵

The Department included information for local authorities on proposed national guideline rents in the draft Housing Revenue Account determination which was issued at the end of each calendar year (prior to the implementation of self-financing in April 2012). The formula for calculating guideline rents was not contained in legislation - for local authorities the formula was RPI + 0.5% plus £2 per week. The reference point for RPI was the September in the year preceding the start of the financial year to 31 March.

The consultation paper, [The Reform of Council Housing Finance](#) (PDF), published in July 2009, contained the following summary of the Government's rent setting policy:

The rent formula was established by Government to gradually bring about this policy, with actual rents moving towards a national formula rent that took account of values of properties and local earnings relative to national earnings. A 'bedroom weighting' factor was also applied to try and ensure the resulting rents better reflected the perceived value of the properties being occupied. These formula rents have been increased each year since 2002 at RPI +0.5%.

The original objective was that actual rents would converge to within 5 per cent of formula rents by 2012, by applying annual increases above or below the increase in formula rents, but subject to a maximum annual increase in actual rent of RPI+0.5%+£2 per week. (The £2 is therefore the maximum annual 'catch-up' for rents which are below formula.)

³ HC Deb 5 December 2001 c135WH

⁴ Property values are weighted by 30% in this calculation with a 70% weighting on local earnings.

⁵ This completion date was later put back to 2015/16.

The HRA subsidy system requires Government to make assumptions each year about the rental income of every council landlord and to take a view about progress towards restructuring for each council. This has led to complex calculations within the subsidy system, using trajectories for each council based on their actual rents at the start of the restructuring process.

In addition, mechanisms have been introduced to compensate landlords for charging rents below the guideline rent, if moving to the guideline rent would breach aspects of the overarching rent policy. These have included a cap on actual rent rises of RPI+1/2%+£2, and a ceiling on individual rent rises which have, from time to time, been included in the annual subsidy determination itself.⁶

The rent influencing regime for housing associations was governed by the Regulation Committee within the Homes and Communities Agency (HCA).⁷ In October 2001, the regulatory body at that time, the Housing Corporation, published guidance for associations, *Rent influencing Regime: Implementing the Rent Restructuring Framework*, which said:

The Corporation expects each association to have an initial plan ready by April 2002. We will not call in plans from those who expect to achieve target rents by 2012; but we shall monitor progress through regular returns and the lead regulation process. Any association which is experiencing difficulty in establishing such a plan should speak to its lead regulator. The guidance recognises that there are potentially over-riding concerns, and plans will need to reflect them. Smaller associations should also plan to achieve target rents to the same timescale. But the scale and nature of any planning should be commensurate with the scale and nature of the association.⁸

The regulatory body issued annual guidance for associations on the implementation of the rent influencing regime. The [Guideline rent limit for private registered providers 2015 to 2016](#) was published in December 2014.

The [Rent Standard Guidance](#) (PDF) published in March 2012 by the Homes and Communities Agency consolidated all of the previous guidance issued by the Housing Corporation and adopted by its successor body the Tenant Services Authority (TSA).

⁶ DETR, [Reform of council housing finance](#). (PDF) July 2009, paras 2.23-2.26

⁷ Regulation is now the responsibility of the Regulator of Social Housing. The HCA was relaunched as Homes England in 2018.

⁸ Housing Corporation, *Rent influencing Regime: Implementing the Rent Restructuring Framework*, 2001

1.2

Further developments (2007 onwards)

Rent setting 2008-09 and 2009-10

In August 2007 the Department for Communities and Local Government (DCLG) issued a consultation paper, [Mechanism for setting Guideline Rents in Housing Revenue Account subsidy 2008-09 and 2009-10](#) (PDF), which included options on setting guideline rents predicated on a rent convergence date of 2011-12 or an extended date of 2016-17:

Andrew Stunell: To ask the Secretary of State for Communities and Local Government when she expects to announce her decision whether to return to the basic rent restructuring formula with caps and limits or extend rent restructuring to reduce the steepness in the trajectory guideline and actual rent rises.

Caroline Flint: Communities and Local Government consulted on the mechanism for the setting of guideline rents in the Housing Revenue Account (HRA) subsidy regime in August. The options consulted on were guideline rents predicated on a rent convergence date of 2011-12, or extending the convergence date to lower annual guideline rent increases. A decision on the preferred option (extending the convergence date to 2016-17, solely for the purpose of calculating guideline rents in the HRA subsidy system for 2008-09) was included in the HRA subsidy determination for 2008-09 which was issued in draft for consultation on 23 November 2007 and in final form on 15 January 2008.⁹

The proposal to extend the convergence date was welcomed by tenants' groups. Sam Lister, policy officer at the Chartered Institute of Housing (CIH), said the proposals "were a sign that rent restructuring had slipped down the list of government priorities."¹⁰

In August 2008, the Department consulted on how the Housing Revenue Account (HRA) subsidy determination would be handled in 2009-10 and 2010-11. A key element of this consultation concerned guideline rents. As previously noted, DCLG included information for local authorities on proposed national guideline rents in the draft HRA determination which was usually issued at the end of each calendar year. The reference point for RPI in the formula for setting guideline rents was September in the year preceding the start of the financial year to 31 March.

⁹ HC Deb 22 February 2008 cc1047-8W

¹⁰ "Plans to align social rents by 2012 set for scrapheap", Inside Housing, 7 September 2007 [login required]

In Handling of the Housing Revenue Account Subsidy Determination 2009–10 and 2010–11, DCLG asked authorities for views on how inflation rates should be assessed for the purposes of setting guideline rents:

There are two practical options for the immediate future of rent policy over the next two financial years.

Comments from stakeholders are welcome particularly on the following possibilities which have been discussed in detail above:

Fixing and pre-setting guideline rent increases with reference to assumed inflation rates for 2009-10 and 2010-11 respectively; or

Allowing guideline rent increases to follow their course to convergence in 2011-12 in line with the rent restructuring formula, using the forecasts of inflation in September 2008 and September 2009 for the respective financial year.

Comments from stakeholders are also welcome on a possible option for limiting higher end actual rent increases.¹¹

Following this consultation process, DCLG issued a letter to all local authorities on 18 December 2008 in which it advised that most authorities had preferred the first option in relation to inflation and setting guideline rents:

Two options were presented for setting guideline rents; a majority of the representations received favoured the Department's preferred option of a fixed 6.1% increase in guideline rents, based upon the September RPI and creating a consequent delay in the convergence date. Ministers have now considered the comments and representations received and, subject to taking account of later information where necessary, they have decided to confirm the proposals in the consultation and to confirm that the Determination is calculated using the Department's preferred option for rent increases as noted here.¹²

It was therefore proposed that the September 2008 RPI figure of 5% would be applied to council tenants' guideline rent increases in 2009-10, this was not without controversy. Councils faced a backlash from tenants facing average rent increases of 6.2% at a time of falling inflation.¹³

The then Government, when questioned on this issue, initially emphasised that it was up to local authorities to set their own rent levels and that the rent restructuring process contained provisions to protect individual tenants from excessive rent rises.¹⁴ A spokesperson from DCLG reportedly said local

¹¹ DCLG, Handling of the Housing Revenue Account Subsidy Determination 2009–10 and 2010–11 [no date]

¹² <http://www.communities.gov.uk/documents/housing/pdf/hradeterminationsletter200910> (link no longer operational)

¹³ "This is a ludicrous situation", Inside Housing, 23 January 2009 [login required]

¹⁴ HC Deb 20 January 2009 cc616-7

authority rent increases should amount to no more than an estimated average of £3.95 per week and for over 60% of tenants these increases would be covered by Housing Benefit.¹⁵

Local authorities argued that if they set rent levels below the guideline rent this would only put off rent increases to a later date, as the requirement for convergence with RSL rent levels by 2023 (a date which was likely to be brought forward if inflation continued to fall) would still stand. The second factor mitigating against setting rents below the guideline was the fact that HRA subsidy assumed authorities increased rents by the guideline amount. Thus, a lower rent rise did not increase the amount of subsidy an authority would receive, resulting, for those authorities in receipt of subsidy, in a budget shortfall.

Negative subsidy authorities, ie those paying surpluses on their HRAs to the Government for redistribution to authorities with deficits, argued they should not have to put up tenants' rent levels by any more than they needed.¹⁶ Additional information on the HRA subsidy system can be found in Library briefing [The reform of Housing Revenue Account Subsidy](#).

DCLG issued a written statement on 6 March 2009 announcing authorities would be allowed to bid for additional HRA subsidy if they were prepared to revisit their rent increases and reduce them. The national average guideline rent increase for 2009-10 was reduced from 6.2% to 3.1%.¹⁷ The reduction in the guideline increase was expected to produce average rent increases for council tenants of £2 instead of £4 per week.¹⁸

For housing associations, the Tenant Services Authority (TSA, then the regulatory body of housing associations) advised they were not obliged to apply the full 5.5% guideline limit for rent increases in 2009-10:

Registered providers are reminded that there is no requirement on them to apply the full guideline limit to rent increases if they can remain viable based on lower rent increases. Some registered providers will opt to increase rents by less than the guideline limit in 2009-10. However, for others this will not be a viable option having already suffered the higher inflationary levels through the impact on their cost bases.

¹⁵ “Rebellion brews over proposed rent hikes”, Inside Housing, 16 January 2009 [login required]

¹⁶ “This is a ludicrous situation”, Inside Housing, 23 January 2009 [login required]

¹⁷ [HC Deb 6 March 2009 c71WS](#)

¹⁸ DCLG Press Release, “Beckett cuts planned council rent increases in half”, 6 March 2009

The TSA is discussing with Communities and Local Government (DCLG) the approach to future rent restructuring and in particular the implications for the guideline limit in 2010-11.¹⁹

Rent setting 2010-11

The Labour Government made a commitment to look again at the 2010-11 national guideline rent increase for local authorities in light of circumstances closer to the start of that financial year.²⁰ On 9 December 2009, DCLG issued for consultation the draft HRA subsidy determination for 2010-11. The accompanying letter to all local authorities contained the following information on guideline rent increases:

In February this year we promised to review the previously established average guideline rent increase for 2010-11 of 6.1%. As a result of that review we have decided to consult on an average guideline rent increase of 3.1%.

Rents and rent restructuring

Fixing the reduced guideline rent increase at 3.1% has been achieved by changing the convergence date. To achieve a specific guideline rent increase of 3.1% it has been necessary to use a convergence date (n) of 3 years.

The key issue in this consultation concerns the average guideline rent increase for 2010-11. As you will be aware, the average guideline rent increase for 2010-11 established in December 2008 was 6.1%. After taking into account the continuing economic conditions, the September 2009 RPI -1.4%, and current rent re-structuring policy, the average guideline increase has been reduced to 3.1%.²¹

The consultation period ended on 25 January 2010 and the final HRA subsidy determination was issued on 3 February 2010.²² The decision to aim for convergence by 2012-13 meant that target rents might have to increase more steeply than had been expected.²³

Considerable concern was expressed by associations in response to the forecast for negative inflation in September 2009. Translating negative inflation into the formula of RPI + 0.5% meant associations having to reduce their rents in 2010-11. Associations argued this would impact on their ability to service loans and raise finance for new development.

¹⁹ <http://www.tenantservicesauthority.org/server/show/ConWebDoc.16647/changeNav/13640> [Link to statement is no longer operational]

²⁰ HC Deb 9 March 2009 c29W

²¹ DCLG, [Draft HRA Subsidy Determination 2010-11 \(PDF\)](#), 9 December 2009

²² DCLG, [Final HRA Subsidy Determination \(PDF\)](#), February 2010

²³ "Councils face new year rent headache" Inside Housing", 8 January 2010 [login required]

In 2007 the representative body of housing associations, the National Housing Federation (NHF), called on the Government to give associations greater scope to increase tenants' rents. In a letter to the then-Minister for Housing, Yvette Cooper, the NHF argued for a move to rent setting based on RPI + 1% instead of RPI + 0.5%. The basis of this claim was the need to boost associations' borrowing power.²⁴

An article in Inside Housing Magazine of 20 February 2009 expressed concern about the impact of negative inflation on housing associations:

The rent formula is also causing concern among housing associations, who have warned that the possibility of negative inflation this autumn could force them to lower rents, dragging down their income levels.

Gavin Smart, assistant director at the National Housing Federation, said it was in discussions with the Tenant Services Authority and the government to press for a 'rent floor', which would allow associations not to reduce rents if inflation fell below zero.

The NHF was disappointed with the stance the TSA had taken on the issue, Mr Smart said. 'It is likely that members might have to cut back on tenant and neighbourhood services and investment and improvement of their existing homes in order to make ends meet.'

A TSA spokesperson said: 'The TSA recognises the potential risk of deflation and is working very closely with the DCLG in thinking through what it might mean for the sector.'²⁵

The TSA issued a further notice in March 2009 in which it recognised that inflation in September 2009 might be much lower and that there was a need to ensure the financial viability of associations:

We would remind Housing Association landlords of the guidance we issued last month stating that the rent formula permits a maximum rate of increase. It is for landlords to set their rents within this maximum taking account of the impact on tenants and future tenants and landlords' financial commitments, which include their commitments to invest and raise service delivery for the homes they currently own and their commitments to build much needed new homes.

We are keen to ensure broadly consistent outcomes over time for social tenants regardless of who their provider happens to be. In this light, we note that the inflation escalator used in the rent formula for next year could be much lower than this year if current inflation trends persist. We welcome the Government's commitment to work with us in monitoring the potential impact of these developments on the guidance for rent levels that should apply in

²⁴ "Federation urges Cooper to allow bigger rent hikes", Inside Housing, 20 April 2007 [login required]

²⁵ "Councils plead for U-turn on rent increases", Inside Housing, 20 February 2009 [login required]

2010/11 - both in terms of its potential impact on tenants' bills and the viability of Housing Association's business plans.²⁶

In July 2009, DCLG published a consultation paper on the draft directions which would apply to the TSA. This consultation related to the regulatory standards the TSA would operate in relation to rents, standards of accommodation and tenant involvement. On rents, the draft direction said:

Most commentators expect the level of inflation (RPI) for September 2009 to be negative, and as a result rent rises in 2010-11 based on that figure are likely to be much lower than in 2009-10. This creates potential problems for landlords. RSL business models and financial arrangements are not the same as those of local authorities, although both types of body are not for profit organisations. RSLs depend on rental income to provide funding for management services, carry out promised improvement programmes and raise private finance to build new social homes. If the formula were applied in the usual way where inflation was strongly negative, there would be a sharp drop in rental income for a significant number of RSLs, with implications for services to tenants and the new development of social housing.

For this reason, the Secretary of State has decided to consult on a change to the formula to permit a floor of minus 2 per cent on increases to rent levels in 2010-11. This means that where the application of the RPI + 0.5 per cent formula would normally lead to a fall in rent levels of more than 2 per cent, registered providers would not be obliged to reduce the rent by more than 2 per cent.

The rationale for the proposed floor of minus 2 per cent is to protect registered providers from a particularly sharp drop in rental income, and also to give them certainty about the minimum amount of rental income they can expect next year.

We recognise that some housing associations are concerned about the prospect of any nominal-terms reduction in rental income next year. Indeed, we considered the case for a floor of 0 per cent that would have allowed registered providers to freeze their rents in the event of deflation in September 2009. However, we had to balance these concerns with the interests of rent payers and the potential impact on the public finances of higher rent increases than would have arisen from the application of the normal formula. We also had to take account of the fact that housing associations were able to set relatively high rent increases for 2009-10 due to the level of RPI inflation in September 2008.

Alongside the proposed rent floor, TSA will continue to work with any individual registered providers who are in financial difficulty. Where the application of the rents standard would cause a provider to be unable to meet other standards, particularly in relation to financial viability, TSA can – where

²⁶ Link no longer operational

necessary – give the provider an extension to the period over which the requirements of the standard need to be met.

We have considered the likely costs of the proposed minus 2 per cent rent floor, compared to a scenario in which there was no floor. It is important to note that the floor would have no effect if RPI inflation in September 2009 was minus 2.5 per cent or higher. For example, if RPI inflation in September was minus 2 per cent, the floor would not have any effect. However if, as was forecast in Budget 2009, RPI inflation was minus 3 per cent, the floor would come into effect. In that scenario, we estimate that the cost to those paying rents would be around £391m more over ten years (NPV) than if there was no rent floor. Approximately two thirds of this total would be met by housing benefit.

The proposed direction imposes a rent floor for one year only, but the Government does not rule out proposing a floor for future years should it be necessary – this would be achieved through another direction.²⁷

The consultation period closed on 9 October 2009 and the final directions were issued by DCLG in November 2009 under section 197 of the Housing and Regeneration Act 2008.²⁸ The TSA published its guidance for associations later in November 2009:

The proposed TSA standard on rents is planned to come into effect from 1 April 2010. That proposed standard, set out as a result of a DCLG direction, continues the principles of rent restructuring previously published and it is therefore a regulatory requirement that housing associations should keep their annual rent changes to no more than the set guideline limit specified by the TSA. This is subject to the requirement that an individual rent does not change by more than £2 a week, in addition to the guideline limit — ie RPI+0.5% plus £2 per week, in any one year. DCLG has made it clear in its direction that it expects guideline rents limits to track RPI whether that be upwards or downwards.²⁹

The guidance set out the circumstances in which the TSA might grant an association an extension to compliance:

The TSA board has agreed that we will take into account the following when considering the case for extensions where complying in full with the restructuring formula would cause:

- a breach of covenant or other loan default before March 2013, or
- existing loan facilities to be exceeded by March 2013, or

²⁷ DCLG, Directions to the Tenant Services Authority, July 2009

²⁸ DCLG, The Directions on Regulatory Standards, 10 November 2009

²⁹ TSA, Rents, rent differentials and service charges 2010-11, November 2009

- significant tenant promises to be broken where these were part of a stock transfer deal

Providing that all reasonable mitigating actions will be taken, including (but not exhaustively):

- making full use of restructuring flexibility, including the 105% tolerance
- cancelling or postponing uncommitted development projects
- re-profiling major repairs programmes where possible

Associations will be expected to submit a business case to the TSA for approval. This should be a base-case plan and must include scenarios demonstrating compliance with the criteria above, plus relevant highlights from covenants and rent plans. The association should focus on a short-term timescale and demonstrate that it has taken full account of any possible efficiencies and adjustments to their cost base.³⁰

The NFH reacted angrily to the draft direction on rents claiming that cutting rents by up to 2% in 2010-11 would cost the sector £260m a year. It argued this could reduce affordable housing development by 4,000 homes a year from 2010:

Federation chief executive David Orr said: “We know that public spending is tight and you get a sense that in order to fund Building Britain’s Future the Government shook every sofa in Whitehall to see what fell out. But then, having accumulated enough to make an impact, they undermine the capacity of the people they need to deliver it.

“Reducing rents by 2% next year won’t just leave a hole in capacity for one year, but for ever. Not everyone will pull back from building – they will find the cuts from elsewhere – but that hole in capacity translated into homes is 40,000 in a decade. That’s 40,000 safe secure places for 40,000 families to thrive.”

The rent increases that housing associations can levy on their tenants are limited by a formula of September’s Retail Price Index (RPI) plus a half a percent each year. Despite the fact that the formula does not mention cuts at all, the Government says it’s being generous by limiting cuts to 2% against a Treasury predicted RPI of minus 3% for this September.

“It means they’ll save about £109 million on housing benefit,” said Mr Orr. “But against a spend of almost £16 billion a year this is marginal. For the 40% of tenants who pay their own rents the average saving would be about £1.36 a week. But, the majority of tenants we’ve spoken to would rather keep their services and see new homes built than have reduced rents.”³¹

³⁰ As above.

³¹ NHF Press Release, 18 August 2009

2 The Coalition Government's rent policy

2.1 Rent setting 2011-12

The final Housing Revenue Account Subsidy determination for 2011-12 was issued in January 2011. The accompanying letter to local authorities provided an explanation of rent setting policy for 2011-12:

Rents and Rent Restructuring - Average 6.8% guideline rent increase for 2011-2012

The rent convergence policy – together with a formula for setting annual council and housing association rent increases – was introduced in the early 2000's with the aim that local authority and housing association tenants will eventually pay similar rents for similar properties in similar areas. At the time, it was thought this would take around 10 years to implement.

Ministers have decided to stay with rent convergence policy and to use the existing formula to determine the average guideline rent increase for 2011-2012. The rent increase has, therefore, been established according to RPI inflation at September 2010, which was 4.6%, combined with a factor for convergence. The Determination is based on convergence within 5 years, a measure which gained support in consultation responses. A 2015-2016 convergence timeframe is consistent with the Department's work on self-financing.

These inflation and convergence factors have been used to calculate 2011-2012 guideline rents, and have resulted in a national average increase of 6.8%. The Department has considered all representations received during consultation on the draft HRA Subsidy Determination. Our conclusion is that the 6.8% average guideline rent increase should be confirmed.³²

In November 2010, the Tenant Services Authority confirmed a guideline rent increase for housing associations of 5.1% in 2011-12.

³² DCLG, [HRA Subsidy Determination 2011-12](#) (PDF)

2.2

Self-financing for local authority HRAs April 2012

Then-Housing Minister, John Healey, issued a written ministerial statement on 30 June 2009 in which he announced an intention to publish a consultation document on the reform of council housing finance before the summer recess. He said there was an “intention to dismantle the HRA subsidy system and replace it with a devolved system of responsibility and funding.” [Reform of council housing finance](#) (PDF), was published on 21 July 2009.

The consultation paper did not propose any changes to rent setting policy for local authorities but said:

It will be necessary to establish long term rent policy in advance of implementing any changes to the system for financing council housing. But we expect to deal with future council rent policy separately, in the context of the HRA subsidy determination for 2010-11 and a future direction by the Secretary of State to the Tenant Services Authority on council rents.³³

The [analysis of rents](#) (PDF) carried out as part of the review was published alongside the consultation paper.³⁴

On 25 March 2010, John Healey issued a statement on the future of council housing finance. He said the system of self-financing set out in the Reform of council housing finance had received “strong support.” He announced the publication of detailed plans for local self-financing and management. He confirmed the detailed principles and terms on which the Labour Government intended to base self-financing. These included the proposal that rental income assumed in the calculation of a local authority’s debt would be based on current rental policy. Full details of the proposals were set out in the DCLG prospectus, [Council housing: a real future](#) (PDF).

After taking office, the new Housing Minister, Grant Shapps, confirmed the Coalition Government would continue with the consultation exercise. In October 2010, he confirmed the HRA subsidy system would be scrapped and replaced.³⁵ On 13 December 2010, he set out, in a written statement, further details of the basis on which the Coalition Government intended to implement

³³ DCLG, [Reform of council housing finance](#) (PDF) July 2009

³⁴ The full analysis can be found in [Analysis of rents for the review of council housing finance](#) (PDF)

³⁵ DCLG Press Release, 5 October 2010

reforms to council housing finance. This statement included confirmation of the intention to continue with existing social rent policy.³⁶

Provisions to enable the move to a self-financing system for local authorities were included in the Localism Act 2011.³⁷

The draft HRA determinations for the implementation of self-financing from April 2012 were published for consultation in November 2011. The section on assumed rental income is reproduced below:

Assumed rental income: As described in both the February and July 2011 policy documents, national social rent policy is that rents in the council housing sector should converge with those charged by housing associations by 2015-16, followed by rent rises at RPI + 0.5% per year after this, in line with housing associations. In valuing each local authority's housing business we have assumed adherence to this rent policy.

In keeping with previous years, we will base next year's rent rises on RPI inflation in the previous September, combined with a convergence factor to reflect the number of years to rental convergence with the housing association sector.³⁸

2.3 Rent setting 2012-13

The Retail Price Index (RPI) for September 2011 reached 5.6%. Applying the DCLG formula of RPI + 0.5% + up to £2 per week, depending on how close council rents were to target rent levels, meant council tenants faced rent rises of around 8% from April 2012.

A survey carried out by Inside Housing reported that just four of the largest 50 social landlords were planning not to implement the full increase.³⁹ While local authorities are free to set their own rent levels under the principles of self-financing, their inherited debt level is also determined by the DCLG rent formula. So, if a council chooses not to apply the formula it could face problems in servicing its debt. Some authorities were reported to have written to DCLG to express concerns about the level of increases their tenants were facing.

Harriet Harman raised the impact of the RPI on rent increases for tenants of Southwark Council in December 2011:

³⁶ HC Deb 13 December 2010 c62WS

³⁷ See Library Research paper 11/03.

³⁸ DCLG, [Draft HRA determination \(PDF\)](#), November 2011

³⁹ "Tenants face 8% rent hike," Inside Housing, 13 January 2012 [login required]

Ms Harman: To ask the Secretary of State for Communities and Local Government what assessment he has made of the merits of taking steps to mitigate the effect of the level of the retail prices index on rent levels for local authority tenants in the London Borough of Southwark.

Andrew Stunell: No such assessment has been made in respect of the London borough of Southwark. Under existing social rent policy, to protect tenants from large annual rent rises there is a limit on actual rent increases for all individual local authority tenants of retail prices index inflation + 0.5% + £2. This rent policy was introduced under the last Administration.⁴⁰

Steve Partridge, director of financial policy at the Chartered Institute of Housing (CIH) reportedly urged councils to apply the full rent increase on the basis that it would be difficult to make up the difference in future years under the self-financing regime.⁴¹

The Tenants Services Authority published guidance on the 2012-13 rent setting process for housing associations in November 2011 in which it confirmed a guideline rent increase of 6.1%.⁴²

2.4 Rent setting 2013-14

The Retail Price Index for September 2012 fell to 2.6%, its lowest level since December 2009. As a result, local authority tenants faced maximum rent increases for 2013-14 of 3.1%, plus or minus up to £2 a week under rent convergence rules.

A survey of the 25 largest stock-owning councils conducted by Inside Housing found that only 3 intended not to impose the maximum rent increase in 2013-14:

The vast majority of council tenants will face rent hikes of between 4.5 per cent and 6 per cent.

The average increase will be 5.1 per cent, according to a survey carried out by Inside Housing.

Of those councils with at least 20,000 homes, just Lambeth, Leicester and Nottingham councils have elected not to apply the maximum increase possible.⁴³

⁴⁰ HC Deb 1 December 2011 c1030W

⁴¹ "Tenants face 8% rent hike," Inside Housing, 13 January 2012 [login required]

⁴² http://www.tenantservicesauthority.org/upload/pdf/Rents_2012-13_full.pdf (link no longer operational)

⁴³ "Councils to increase rents by 5.1% on average," Inside Housing 15 March 2013

The regulator published guidance on rent increases for housing associations in December 2012:

The rent influencing regime commenced on 1 April 2002 and specified a 10 year implementation period. The restructuring of social rents should therefore have been broadly complete by 31 March 2012, unless agreed with the regulator. This means that social rent levels should not be in excess of 5% above target rent levels, subject to the maximum rent caps. However, where such rents are below 105% of target levels an amount up to £2 per week, in addition to the guideline limit, may still be applied until that limit is reached.

Supported housing social rents were allowed an additional year to achieve rent restructuring and also are permitted a tolerance of 10% over target rent levels. The restructuring of rents for this category of properties should therefore be broadly complete by 31 March 2013.⁴⁴

2.5

A 10-year rent settlement from 2015

Housing commentators had emphasised the need for clarity on how social housing rents would be set in future as the date for rent convergence drew nearer. The Chartered Institute of Housing (CIH) and L&Q housing association published a joint report in September 2012 which looked at options for more flexible approaches to rent setting and called for certainty over rent setting:

Changes in policy and funding for affordable housing have created uncertainty about the future of rents and rent setting. The current dual system – rent restructuring and Affordable Rent – may be subject to further changes following the Pay to Stay proposal. The affordable housing sector and government needs to debate and agree how all sub-market rents will be set in future in particular as we get closer to the end of the restructuring regime (2011/12 for housing associations and 2015/16 for local authorities). The nature and coherence of the approach is particularly important for financial planning but it also affects the fundamental purpose and objectives of sub-market housing.⁴⁵

The same report called for:

1. an agreed measure of affordability;
2. an approach to rent setting that will not increase Housing Benefit expenditure;

⁴⁴ HCA, Guideline rent limit for private registered providers 2013-14, December 2012

⁴⁵ CIH/L&Q, Future options for rents and rent setting, September 2012

3. an approach that will sustain lender confidence (investment) in the sector – keeping the link with RPI;
4. a coherent and stable approach to rent setting;
5. clarity around what new rental income can be used for; and
6. clarity on the relationship between market and sub-market rents.

The report also (briefly) considered the options of regional rent setting and redistributive rents.

The Government confirmed its intention to provide clarity over future rent setting policy during the 2013 Budget and, as part of the 2013 Spending Round, announced that “from 2015-16 social rents will rise by CPI plus 1 per cent each year for 10 years.”⁴⁶ The Spending Review document said the Government would save £540 million in 2017-18 as a result of the change in formula.

Housing organisations welcomed the certainty delivered as a result of this announcement, but some concerns were expressed over whether the change in formula would reduce landlords’ incomes and thus have an impact on their ability to invest in existing and new homes.⁴⁷ Matthew Warburton, Policy Adviser to the Association of Retained Council Housing (ARCH), provided the following assessment of the implications of the formula change:

It is generally accepted that CPI will rise more slowly than RPI, since it does not include housing costs, but by how much is debatable. Between 1989 and 2011 the average annual rise in CPI was 0.7% less than RPI, although in 2009-10 the relationship was reversed, with CPI over 3% more than RPI.

A deeply technical paper published by the OBR in 2011 argues that the future gap is likely to widen to a long run average of 1.4%. If this is true, the long run effect of the new formula would be a cumulative reduction in rent income by 0.9% a year compared with current business plan assumptions, with a significant impact on the scope for new building. However, the composition of CPI is due to be reviewed, putting a question mark over any long run prediction.⁴⁸

Modelling carried out by the Chartered Institute of Housing also indicated that landlords would experience some loss in rental income as a result of the formula change compared to what they would have received if the existing system had been extended:

⁴⁶ HM Treasury, [Investing in Britain’s Future](#) (PDF), Cm 8669, June 2013

⁴⁷ “Rent changes to save Treasury £1bn”, Inside Housing, 26 June 2013 [login required]

⁴⁸ ARCH, The new rent formula – what does it mean, 27 June 2013

This could of course affect their ability to invest, for example in developing new affordable housing, however the extent of this will depend on what assumptions they had previously made in their business plans about future rent increases.⁴⁹

2.6 The end of convergence

While social landlords were still digesting the implications of the formula change, DCLG sent a [letter](#) (PDF) to housing bodies on 2 July 2013 in which plans to cut short the policy of converging council and housing association rents were revealed:

Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014-15 – and the policy costings published by the Office for Budget Responsibility are based on that assumption. So when we say rent increases of up to CPI + 1% from 2015/16 onwards, that is what we mean.

We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost 15 years – this is a significant period of time for landlords to make full use of the rent flexibilities the Government has provided, and most have done so.

We will set out details on limit rents for local authorities in 2014/15 in due course.

In coming to a decision on our future rent policy, we have struck a balance between protecting tenants – ensuring rents remain affordable – and giving social landlords the income they need to invest in new housing (helping more people in housing need) and provide good services to their tenants. We think CPI + 1% strikes the right balance and represents a good deal for both landlords and tenants.⁵⁰

The [Draft Local Authority Rent Guidance: Rents for social housing from 2015 to 2016: consultation](#) (PDF) was published in October 2013 with a summary of responses published in May 2014 ([discussed on page 22 of this paper](#)).

Alongside the consultation paper, DCLG published [Guidance on rents for social housing: draft for consultation](#) (PDF) and [Direction on the rent standard 2013: draft for consultation](#) (PDF). It was proposed to use powers in [section 197 of the Housing and Regeneration Act 2008](#) to issue a new direction to the regulator⁵¹ on rent.

⁴⁹ CIH Briefing on rent setting from 2015, 2013

⁵⁰ [DCLG letter to the Association of Retained Council Housing \(PDF\)](#), 2 July 2013

⁵¹ The Regulation Committee within the Homes and Communities Agency.

For landlords owning properties that had not reached their target rent (the optimum rent they should be charging based on a valuation rent formula), the end of rent convergence (ie the ability to change social rents by a further +/- £2 per week from 2015-16) was predicted to result in a loss of rental income:

The end of rent convergence will not affect all organisations, the vast majority of social rented homes are now ‘converged’, but could have a greater impact on those whose rents are currently still significantly below target level. For example for an organisation managing 10,000 homes, a loss in rental income of £2 per week on each property would equate to over £1m in a single year. The effect will be particularly substantial for organisations whose business plans currently assume a rent increase of this type for several years beyond 2014-15.⁵²

The worst affected councils were, reportedly, in high value areas such as London where the gap between target rents and average rents was highest. There were concerns that some local authorities would have to rewrite their 30-year business plans (prepared for the move to self-financing in April 2012) and that the loss in rental income would challenge their ability to repay debt taken on as part of the move to the new financial regime. An article in Inside Housing provided an indication of the potential impact for certain landlords:

Southwark Council has been particularly badly hit. The 40,000-home borough took on £323 million of debt under the HRA reforms and is repaying £80 million a year. It has an 8 per cent gap between target rents and average rents. According to Ian Wingfield, deputy leader at Southwark, 55 per cent of the south London borough’s homes won’t have achieved rent convergence by 2015 - despite having instigated the maximum increases every year. The council’s HRA 30-year business plan had been predicated on the assumption that convergence would be extended and that rents would continue to be linked to the retail price index. This means Southwark now faces a potential black hole in its business plan of between £300 million and £430 million.

‘This will impact our ability to pay as much [debt] as we can now,’ says Mr Wingfield. ‘It will hit our housing services. We will have to revise our plans in terms of what we can pay.’⁵³

[...]

Bolton at Home has 12,000 homes that will be charging below target rents by 2015. As a result, according to Edward Mellor, assistant director of finance at the 18,000-home association, it faces a £2.5 million-a-year loss in income that will make it struggle to repay its £4.5 million debt without a ‘significant’ overhaul of its business plan. The CLG says in cases like this, associations

⁵² CIH Briefing on rent setting from 2015, 2013

⁵³ “Missing the Target”, Inside Housing, 19 July 2013 [login required]

should contact the regulator which can grant waivers to the rent standard for extreme cases where an association's viability is threatened.

'It's a big problem for us,' says Mr Mellor. 'The HCA has asked us to model what the impact will be. Two thirds of our properties are affected, and over 30 years it is a huge loss. I can't see how we could continue making debt repayments.'⁵⁴

July 2013 saw reports of a 'threat' to Southwark Council's plans to build 10,000 new homes.⁵⁵

The financial viability of housing associations' business plans in London was not expected to be affected but some expected a reduction in their capacity to develop:

Several of the older associations argue the loss in income is going to reduce their capacity to develop homes. Peabody is one such example. As a legacy of its historically low rents, around 40 per cent of its 20,000 homes will not have converged by 2015. As a result, the weekly rent on the average home is £9.74 below target rent, equating to a £7 million-a-year rent loss.

Steve Howlett, chief executive at Peabody, says the 150-year old association would be forced build 100 fewer homes a year as a result of the change. 'This is not a financial issue for us, but it means we will have to build fewer homes. This is more bad news for the government than us.'

Similarly, 57,000-home Affinity Sutton has 5,000 homes that are below target rent, equating to a £19 million rent loss over 10 years. Meanwhile, 21,000-home Family Mosaic has around 9,500 properties affected, and 48,000-home Hyde Group will have around 6,000 below target by 2015.⁵⁶

The [Draft Local Authority Rent Guidance: Rents for social housing from 2015 to 2016: consultation](#) (PDF) acknowledged the impact ending rent convergence might have on some landlords:

We recognise that this policy change will impact more significantly on some landlords than others. In general, we expect that it would not impact on a landlord's financial viability. But where a private registered provider believes that any aspect of our new policy will impact on their financial viability, they should contact the Regulator, which can offer time-limited waivers from adherence to policy to support associations to remain financially viable. Before providing a waiver, the Regulator expects an association to have looked at all other solutions for addressing their viability concerns, including reducing non-core spending.⁵⁷

⁵⁴ As above..

⁵⁵ "Southwark's 10,000 new homes plan under threat", Inside Housing, 19 July 2013 [login required]

⁵⁶ As above.

⁵⁷ DCLG, [Rents for social housing from 2015 to 2016: consultation, October 2013, para 47](#)

The lack of a reference to ‘waivers’ for local authority landlords led some to describe the approach as ‘unfair.’⁵⁸

One response to the Government’s announcement appeared to be the imposition of maximum rent rises by social landlords in 2014-15:

Councils are planning inflation-busting rent hikes in an attempt to plug multi-million pound holes in their business plans caused by proposals to change rent-setting rules.

Exclusive Inside Housing analysis of the business plans of more than 40 English councils reveals that the majority will apply the maximum rent increases allowed in 2014/15. The average increase will be 5.16 per cent. They are doing this to minimise predicted losses of hundreds of millions of pounds over their 30-year business plans as a result of an early end to the government’s policy to align social housing rents.

Twelve councils expect combined losses of £603.7 million over the next 30 years.

Leeds Council estimates rental losses of £179 million, while Barnsley and Dacorum councils each predict a £100 million loss.

Welwyn and Hatfield Council said the changes would cost it ‘tens of millions of pounds’ and that it would ‘leave a totally unsustainable HRA within five years’.

As a result the authority is deviating from the rent guidance and increasing rents by 7.22 per cent in April. It will continue to increase rents significantly in 2015/16 and 2016/17.

Around 25 councils are warning that because much of their stock will not have met ‘target rent’ by 2015/16, they will face losses in income that threaten the viability of their housing revenue account business plans, ability to build homes and deliver services.

Under government plans, from April 2015 councils will no longer be able to increase rents gradually by £2 until they meet optimum, known as target rent. This means 2014/15 is the last year they can use the formula of the retail price index (3.2 per cent) plus 0.5 per cent, plus up to £2 per week. Instead, for the next 10 years rents will be set using the consumer price index plus 1 per cent.

In Kensington and Chelsea, where just 34 per cent of homes will have reached target rent, the council plans to hike rents by 6.28 per cent in 2014/15. It will continue increases outside the guidance formula for the next five years.⁵⁹

⁵⁸ “CLG under fire over rent plans,” Inside Housing, 8 November 2013 [login required]

⁵⁹ “Rent plan blows hole in council coffers,” Inside Housing, 24 January 2014 [login required]

On 7 February 2014, Inside Housing reported that 95% of housing associations would increase their rents in 2014-15 by the maximum 3.7%. Where rents had yet to meet target levels associations could add up to £2 per week.⁶⁰

The Government published a summary of responses to its consultation process in May 2014.

Around 40% of respondents were strongly opposed to the proposals, specifically the end of rent convergence, with some landlords saying they had not been able to reach full rent convergence due to historically low rents:

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.⁶¹

Concerns were also specifically raised about the removal of the additional £2 to facilitate rent convergence, and that this was not in line with the calculations underpinning the Housing Revenue Account self-financing settlement:

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 number of local authorities and representative bodies said that the removal of the £2 flexibility was not in line with the calculations underpinning the Housing Revenue Account self-financing settlement. They said this would result in a loss of rental income which could affect their business plans. Some also said that they were concerned that this policy change had been proposed so soon after the start of self-financing.⁶²

Responses from tenants were mixed. Although they wanted to limit rent increases, they also expressed concern about the impact of ending rent convergence and the impact this would have on landlords' ability to pay for services and investment in new housing.

Some concerns were raised about the use of CPI, rather than RPI, for calculating rent increases:

⁶⁰ "Majority of associations to hike rents by maximum," Inside Housing, 7 February 2014 [login required]

⁶¹ DCLG, [Rents for Social Housing from 2015-16. Consultation: Summary of Responses](#), (PDF) May 2014, para 3.4

⁶² As above, para 3.19

Around one-fifth of respondents disagreed with this aspect of the policy, the majority of which were local authorities. They felt that the move from RPI to CPI has the potential to result in lower rent increases in the long term, as CPI has tended to be lower than RPI. If this is the case, they argued it would result in providers being able to generate less money from rent increases, with a negative impact on Housing Revenue Accounts over 30 years.⁶³

2.7

Guidance on social housing rents from April 2015

Local authorities

In May 2014, the Government published its final policy on rents for social housing for ten years from April 2015 - [Guidance on rents for social housing \(PDF\)](#). The guidance applied only to local authorities, although the Social Housing Regulator was expected to have regard to it when setting the Rent Standard for private registered providers (see below). The guidance replaced the 2001 Guide to Rent Reforms and A Guide to Social Rent Reform in the Local Authority Sector (2003) “and any other guidance on rents issued in relation to those documents.”⁶⁴

The Government guidance confirmed it would proceed with its policy of abolishing the provision for landlords to increase rents by an additional £2 per week to achieve convergence. It also confirmed the introduction of a CPI-linked calculation on which local authorities were expected to set their rents from April 2015 onwards:

From 2015-16 to 2024-25, the uplift for each year should be the Consumer Price Index (CPI) at September of the previous year plus 1.0 percent.⁶⁵

The guidance allowed some flexibility to set rents above the standard calculation to maintain financial viability for local authorities:

As a result, the policy contains flexibility for authorities to set rents at up to 5 percent above formula rent (10 percent for supported housing and sheltered housing). We expect authorities to use this flexibility in a balanced way, and not set all rents at 5 percent (or 10 percent) above the formula rent.

Where a rent is at a level that is more than 5 percent (or 10 percent) above the formula rent in 2015-16, it should be brought within the flexibility level over time, either through applying a rent increase of less than CPI + 1 percentage

⁶³ As above.

⁶⁴ DCLG, [Guidance on Rents for Social Housing \(PDF\)](#), May 2014

⁶⁵ As above.

point, or through lowering the rent when the property becomes vacant and is re-let. In terms of lower rent increases, we expect this to be done in a way that brings the rent within the flexibility level within a reasonable period of time, whilst ensuring financial viability is maintained.⁶⁶

Registered providers/housing associations

The Government issued a new [Direction on the rent standard 2014](#) (PDF) in May of that year which applied to standards set by the Homes and Communities Agency (HCA) in relation to rents for registered providers from 1 April 2015. The HCA then published [Consultation on Changes to the Regulatory Framework: Annex 3. The Rent Standard](#) (PDF) in May 2014. This document:

...replaces that which took effect from April 2012. The previous version had consolidated all of the previous guidance first issued by the Housing Corporation and adopted by its successor social housing regulator bodies. It is guidance issued in relation to the requirements of the Rent Standard that applies from 1 April 2015.⁶⁷

The consultation period ended on 19 August 2014. Subsequently, in July 2014 the Government published [Supplementary Guidance on the Rent Standard](#) (PDF) which contained additional guidance on the process for waiver applications ahead of 1 April 2015 to enable landlords to determine their rent levels before that date.

Comment

The NFH welcomed the certainty provided by the Government's ten-year policy, but again raised concerns about the end of rent convergence:

The Federation welcomes the certainty this settlement affords to housing associations in planning their business. However, we were disappointed that the Government persisted with the decision to abolish rent convergence, despite significant opposition...

We have expressed concern over the impact the proposals will have on the business plan of members, including in some cases the risk of financial viability.

There appears to be few housing associations falling into this category and the Homes and Communities Agency (HCA) has agreed to consider a waiver to convergence for those associations but only in a very narrow set of circumstances and only after all other options have been exhausted:

⁶⁶ As above.

⁶⁷ HCA, [Consultation on Changes to the Regulatory Framework: Annex 3. The Rent Standard \(PDF\)](#), May 2015

- to ensure ongoing viability
- to ensure covenant compliance and
- to ensure delivery of transfer promises in early years' Large-Scale Voluntary Transfers (LSVTs).⁶⁸

In October 2014, Inside Housing reported that, due to record low inflation rates with the CPI set a five year low of 1.2% in September 2014, landlords would only be able to increase rents by up to 2.2%. This was 0.6% lower than if the RPI linked system had been retained. Commentators predicted a heavy knock-on effect for housing organisations:

People will have to make serious cuts and improvements in value for money if they are to continue operation. For some organisations the effect will be severe.⁶⁹

⁶⁸ DCLG, [Guidance on Rents for Social Housing \(PDF\)](#), May 2014

⁶⁹ *Inside Housing*, 'Rents will be "squeezed" as inflation falls, 17 October 2014

3 Summer Budget 2015: Reducing rents by 1%

As part of the Summer Budget 2015, the Chancellor announced rents in social housing would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21:

Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts.⁷⁰

The subsidy referred to in this extract refers to the personal entitlement to Housing Benefit of 2.7 million social housing tenants. The measure was forecast to save £1.4 billion by 2020-21, primarily in reduced Housing Benefit expenditure.⁷¹ Around 1.2 million tenants not in receipt of Housing Benefit in the social rented sector were expected to benefit by £700 per year (2015 prices).⁷²

The 2.7 million tenants in receipt of Housing Benefit in social housing at that time would not gain from lower rent levels but the Institute for Fiscal Studies (IFS) noted that work incentives for this group could be improved.⁷³

Measures were included in the Welfare Reform and Work Act 2016 to require social landlords to reduce the rents payable by individual tenants by 1% each year between 2016 and 2019. The rent baseline was the rent payable on 8 July 2015, although the Secretary of State could consent to an alternative 'permitted date.'

The Regulator of Social Housing had the power, by direction, to exempt a private registered provider from the rent reduction requirement. An

⁷⁰ HM Treasury, [Summer Budget 2015 \(PDF\)](#), HC 264, July 2015, para 1.140

⁷¹ As above, Table 2.1 p73

⁷² Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

⁷³ As above.

exemption would only be granted where compliance would jeopardise the provider's financial viability.

Similarly, the Secretary of State had power to issue a direction to exempt a local authority from the rent reduction requirement if he considered compliance would result in the authority being unable to avoid serious financial difficulties. [The Social Housing Rents \(Exceptions and Miscellaneous Provisions\) Regulations 2016](#) set out exceptions to, and circumstances in which, exemptions could be given from the rent regime. DCLG also [published guidance for local authorities on exemptions](#) (PDF) from the rent regime in May 2016.

[The Social Housing Rents \(Exceptions and Miscellaneous Provisions\) \(Amendment\) Regulations 2017](#) amended the 2016 Regulations to create new exemptions and extend the period over which certain pre-existing exceptions could apply.

The provisions in the 2016 Act to require social landlords to reduce their rents by 1% every year for four years were discussed during the tenth sitting of the Public Bill Committee on 15 October 2015.

Following intensive lobbying by providers of supported housing,⁷⁴ which tend to operate on lower profit margins and have higher rents, Lord Freud announced a year-long exception for all supported housing from the 1% rent reduction in the social rented sector on 27 January 2016.

He also confirmed that the one-year exception would extend to housing co-operatives, almshouses and Community Land Trusts. He said these providers would be able to raise rents for 2016/17 by CPI+1% in line with the rent standard.⁷⁵ The definition of supported housing covered by the year-long exception was set out in the [Social Housing Rents \(Exceptions and Miscellaneous Provisions\) Regulations 2016](#).

On 15 September 2016, the Secretary of State [announced](#) the end of the 1% rent reduction deferral for supported housing. An exemption for specialised supported housing remained in place and was extended to include fully mutuals/co-operatives, alms houses, Community Land Trusts and refuges.⁷⁶

The [Impact Assessment on Social Rent Reductions](#) (PDF, IA) was published sometime after the Welfare Reform and Work Bill's debate on Second

⁷⁴ This includes a range of accommodation such as sheltered housing for the elderly, refuges for those fleeing domestic violence and accommodation for ex-offenders.

⁷⁵ [HL Deb 27 January 2016 cc1377-8](#)

⁷⁶ [The Social Housing Rents \(Exceptions and Miscellaneous Provisions\) \(Amendment\) Regulations 2017](#)

Reading.⁷⁷ The IA made it clear that shared ownership properties were exempt.⁷⁸

Comment

Housing associations have been proactive in seeking out alternative sources of funding. They have, in large part, been successful in doing so due to investors' assumption of a steady rental income. This has also enabled associations to borrow at a reasonable rates to invest in new housebuilding. In [A Plan For Homes](#) (PDF), launched on 13 July 2015, the National Housing Federation called on the Government to offer, inter alia, greater flexibility in setting rents within an overall envelope in order to achieve “genuinely affordable rents while creating the most effective income stream.” With this and other measures, the NHF claimed associations could develop 120,000 new homes per year.⁷⁹

In this context, the requirement to reduce social housing rents was unexpected, particularly as the ten-year rent policy (to operate from 2015-16) had been announced in May 2014 with a stated intention of enabling social landlords to plan for future investment:

At Budget 2013, the Government signalled its intention to set out, in the Spending Round, a rent policy to apply for ten years from 2015-16. This commitment was in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment – and so provide more new affordable homes, improve existing affordable homes, and provide good services to their tenants.⁸⁰

Development of affordable housing

The announcement was greeted with dismay by social landlords who had to model the impact on their business plans. The Office for Budget Responsibility (OBR) predicted a reduction in housing investment because of the measure:

...the 1 per cent a year reductions in social sector rents for four years from April 2016 announced in this Budget will directly reduce social landlords' rental income. We expect that this will reduce their ability and willingness to invest in housing, so we have lowered our forecast for residential investment, proportionate to the expected reduction in rental income. The effect is to reduce the level of private residential investment by around 0.7 per cent by the end of the forecast period, which is broadly consistent with a reduction in

⁷⁷ [Impact Assessment on Social Rent Reductions](#) (PDF), 28 September 2015

⁷⁸ As above.

⁷⁹ [A Plan For Homes](#) (PDE) NHF, 13 July 2015

⁸⁰ DCLG, [Guidance on rents for social housing](#) (PDF), May 2014, para 1.10

housebuilding of 4,000 in 2020-21. Over the forecast period, our assumptions suggest around 14,000 fewer affordable homes will be built. We do not expect private sector house-builders to offset this effect to any material degree.⁸¹

The NHF estimated a more significant reduction:

Our own estimates suggest that the reduction will result in a loss of almost £3.85bn in rental income over the four years. Simply dividing this by the average build cost in the 2011-15 programme of £141,000, suggests that at least 27,000 new affordable homes won't be built as a result of the change. This of course assumes the lost income wouldn't be matched by any government grant or used to leverage in private finance, so the actual total could be higher.⁸²

The NHF estimated the cumulative loss to the sector's total rent revenue at around £3.85 billion over the four years to 2019/20 (assuming CPI of 1.2% per year).

The Local Government Association (LGA) carried out modelling on the impact of rent reductions for councils with retained housing stock and concluded the measure would cost councils £2.6 billion by 2019/20:

The cost to councils will rise from £234 million in year one, to £508 million in year two, £795 million in year three, and over £1 billion by 2019/20. By that point the annual funding gap will represent 60 per cent of local government's total housing maintenance budget. Over the four years the total £2.6 billion will be equivalent to the cost of building almost 19,000 new homes.⁸³

The withdrawal of the ten-year approach to rent setting resulted, according to affected landlords, in a lack of confidence in the sector.⁸⁴ The rating agency for 44 social landlords, Moody's, reportedly said the measure had an adverse impact on the sector's traditional stability:

The agency said: 'A traditional credit strength of English [housing associations] has been the predictability of the policy environment and the sector's strong ties to government. This stability has been eroded by the sudden removal of the rent-setting formula, which was preceded by limited consultation...

'In the past, Moody's has viewed the sector's close relationship with government as credit positive due to a settled and supportive policy environment. This is no longer the case, with changes in government policy creating a more challenging operating environment for [housing associations].'⁸⁵

⁸¹ OBR, Economic and Fiscal Outlook, Cm 9088, July 2015, para 3.84

⁸² Summer Budget 2015 Briefing, National Housing Federation, 10 July 2015

⁸³ LGA Press Release, 21 July 2015 [link no longer working]

⁸⁴ "Scrapping of rent formula to reduce building," Inside Housing, 10 July 2015 [login required]

⁸⁵ "Moody's: Rent cut could cost sector 7% in revenue," Inside Housing, 13 July 2015 [login required]

The overriding concern of housing commentators was that the potential adverse impact on housing development came at a time when there was general consensus over the need for additional housebuilding to tackle the UK's housing shortage and associated affordability issues.

While supporting the Government's aim of reducing expenditure on Housing Benefit, social housing providers and their representative bodies believed this was best achieved through increasing housing supply, rather than by reducing rent levels and restricting access to housing support. Responding to the Summer Budget 2015, Terrie Alafat, then-CEO of the Chartered Institute of Housing (CIH), said:

Action to restrict entitlement to benefits is at best a stop gap measure and at worst increases poverty and misery for already poor and vulnerable people. Long-term, effective action would focus on increasing our housing supply not further restricting access to our already insufficient and inadequate supply of homes.

Cutting housing benefit simply penalises people who are struggling to afford a place to live, rather than tackling the root cause of the problem. Freezing working age benefits for four years fails to reflect the reality of the housing crisis – we have failed to build the number of homes we need for decades, which means the cost of housing and therefore the housing benefit bill is going up.

We know the government wants to tackle this issue, and housing professionals across the UK are ready to work with them on the solutions that could make a real difference. But we're concerned that some of the measures announced today are going to make it more difficult for them to play their part in building the new homes we need and supporting people into work or training.

Social landlords built almost 60,000 homes in 2014/15 and have also made significant investment in employment and training support. We understand the government's desire to manage the cost of the housing benefit bill – but undermining their income by cutting social housing rents by one per cent a year over the next four years is going to make it much tougher to build new homes at a time when we desperately need to do so.⁸⁶

There were reports of housing associations seeking to renegotiate their development plans under the Affordable Homes Programme with some seeking to develop more homes for sale instead of sub-market rented homes.⁸⁷

There was little reference from the sector to the Government's aspiration that the policy's impact should be absorbed through efficiency measures, rather

⁸⁶ CIH responds to the Summer Budget 2015, 8 July 2015

⁸⁷ "Affordable homes programme renegotiated as rent cuts bite," Inside Housing, 6 August 2015 [login required]

than cuts to development programmes. The Impact Assessment acknowledged the challenge of rent reductions for housing associations (the impact on councils with retained stock was not directly addressed in the IA) but noted:

...the strong balance sheets mean they are well placed to manage these reductions and have proved themselves to be more than capable of adapting and responding to change. With a large surplus of £2.4 billion in 2014, the Government is confident they will be able to find efficiencies to accommodate the rent changes.⁸⁸

The IA also commented on the potential impact on housing supply:

The Government has also considered whether the rent reduction measures would impact on the supply of affordable housing. The Government is continuing to engage with the housing association sector and it remains confident that they will be able to find the necessary efficiencies to manage this change. At the same time the Government remains committed to delivering 275,000 affordable homes over the course of the Parliament, and to supporting the most vulnerable in our society to have a decent place to live, as well as being committed to taking steps to increase home ownership.

The Government has a wide number of levers at our disposal to ensure that this country has the right homes to meet people's needs and legitimate aspirations to own. 200,000 Starter Homes will be built encouraged by an improved planning system. The Affordable Homes Guarantees Scheme has delivered over £1.5bn of guaranteed borrowing at record low levels for 41 housing associations to deliver 11,000 homes so far – with more in the pipeline. There continues to be an important role for housing associations in delivering the mix of housing supply this country needs.⁸⁹

Several housing bodies submitted written evidence in preparation for the Public Bill Committee's consideration of measures in the Welfare Reform and Work Bill (of which the requirement to reduce rents in social housing was one). The submissions can be viewed on the [parliamentary bills website](#).

On 26 February 2016, Inside Housing reported on an analysis of 40 councils' Housing Revenue Account business plans and concluded that the 1% rent reduction was resulting in "heavy cuts to capital investment including housebuilding."⁹⁰ Councils such as South Cambridgeshire, Dover, Cambridge and Reading were reported to have cut, axed, or put on hold, their housebuilding plans, while Bolsover, Bournemouth and Southampton had

⁸⁸ [Impact Assessment on Social Rent Reductions \(PDF\)](#), 28 September 2015

⁸⁹ As above.

⁹⁰ "Councils axe build programmes after rent cut," Inside Housing, 26 February 2016 [login required]

reduced their capacity.⁹¹ In comparison, Southwark and Sheffield had reportedly protected their housebuilding plans.⁹²

The Communities and Local Government Select Committee considered the 1% rent reduction as part of its inquiry into housing associations and the Right to Buy. DCLG's evidence pointed to the association sector's surplus of £2.4 billion in 2014. The Committee agreed the sector should seek more efficient ways of working but said these measures alone "are unlikely to meet the decreased income caused by the 1 per cent annual reduction in rents compared to the original figure of CPI plus 1 per cent." The Committee wanted to see surpluses generated by associations applied to deliver new housing.⁹³ The Committee also called for associations to be allowed to set their own rent levels:

We believe that before the Autumn Statement 2016 Government should provide some certainty over rent levels post 2020, to assist long-term business planning and increase investor confidence. In the long term, housing associations should have the freedom to set their own rents, recognising that tenants' ability to pay rents will be limited by the future application of Local Housing Allowance rates to Housing Benefit and Universal Credit claimants living in social rented housing. The Government is committed to deregulating the housing association sector: freedom for housing associations to set the rents for their tenants should be the next step, since housing associations understand their tenants and the local market and are best placed to set fair rent levels.⁹⁴

Evidence of the impact of the 1% rent reductions was submitted to the CLG Committee's inquiry into capacity in the homebuilding industry over 2016-17. David Montague, CEO of L&Q, said:

In the last Cameron-Osborne budget, we saw our rents reduced by 1% a year. For my business, that is worth £55 million a year; for g15, it is £500 million a year; for the sector, it is £1.6 billion a year. We could have built a lot of homes with that money. The bigger issue for us is what happens in five years' time. At the moment, we just do not know. So far, the sector has raised £80 billion to invest in new homes. If we gear up, as we suggest we want to, to deliver even more homes, our future and our ability relies on the confidence of our investors. Those investors are quite rightly saying: "What happens to rents in five years' time?"⁹⁵

⁹¹ As above.

⁹² As above.

⁹³ Housing, Communities and Local Government Committee, [Housing associations and the Right to Buy](#), 10 February 2016, HC 370 2015-16, para 96

⁹⁴ As above, para 99

⁹⁵ Communities and Local Government Committee, [Capacity in the homebuilding industry](#), 29 April 2017, HC 46 2016-17, para 63

Major repairs investment

An exclusive survey carried out by Inside Housing (reported in January 2017) showed that associations reduced expenditure on major repairs by 7.3% to £386 million in 2015/16 following the Government's announcement on rent reductions. The survey reportedly found that associations' planned maintenance expenditure also dropped by 1.6% to £630 million.⁹⁶

⁹⁶ "Associations slash spend on major repairs as rent cut bites." Inside Housing, 20 January 2017 [login required]

4

Rent setting policy 2020-25

The Communities and Local Government Committee's inquiry into capacity in the homebuilding industry over 2016-17 welcomed the 2015 Government's recognition of the need for certainty over social sector rent levels and called for the issue to be addressed as a "matter of urgency to ensure that housing associations are able to maximise their delivery of new housing." The Committee wanted to see certainty delivered by the Autumn Statement 2017 "at the very latest".⁹⁷

On 4 October 2017, the Government, having promised to deliver a rent policy for social landlords beyond 2020⁹⁸ in the Housing White Paper, [Fixing our broken housing market](#) (PDF, February 2017), announced:

...increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. This will give social tenants, councils and housing associations the security and certainty they need.

[...]

The announcement on rent policy beyond 2020 will be reflected in a direction to the Social Housing Regulator, which the government will consult on next year.⁹⁹

This marked a return to the rent setting approach which was to apply for ten years from 2015 before being replaced with rent reductions from April 2016.

The sector had been lobbying for a return to an inflation-linked settlement, so the announcement was welcomed. David Orr, then-CEO at the National Housing Federation said:

This is excellent news. We welcome today's settlement on rents. It will give our housing association members the certainty they need to leverage in private finance and build the homes the nation so desperately needs.¹⁰⁰

⁹⁷ Communities and Local Government Committee, [Capacity in the homebuilding industry](#), 29 April 2017, HC 46 2016-17, para 64

⁹⁸ Up to 2019/20 social landlords were required to reduce their rent levels by 1% in each year with some exceptions.

⁹⁹ DCLG Press Release, [£2 billion boost for affordable housing and long term deal for social rent](#), 4 October 2017

¹⁰⁰ "Government announces five year rent settlement", Inside Housing, 4 October 2017 [login required]

Chartered Institute of Housing CEO at the time, Terrie Alafat, said:

This new rent settlement is good news for social housing – it provides the stability and certainty landlords need to build more desperately-needed new homes and to invest in their existing homes and services for tenants.

We need to make sure that rents are genuinely affordable for people on lower incomes. In our recent Building Bridges report we proposed that rents should not take more than a third of net earnings for people on below average income, and should not normally see working households needing to claim housing benefit.¹⁰¹

Consultation on a new rent direction took place between September and November 2018.¹⁰² The [response to the consultation](#) (PDF) was published on 26 February 2019.¹⁰³ The new rent direction has applied from 1 April 2019. The Regulator’s rent standard:

- reflects our announcement in October 2017 that we intend to permit registered providers of social housing to increase their rents by up to CPI+1% each year, for a period of at least 5 years
- applies to local authority registered providers (as well as to private registered providers)¹⁰⁴

The [Direction on the rent standard 2019](#) (PDF) replaced the 2014 Direction. The [Policy statement on rents for social housing](#) (PDF) set out the Government’s policy on rents for social housing from 1 April 2020 onwards.

The [Rent Standard - April 2020](#) was published on 13 February 2020 and updated on 15 November 2021.

4.1 The impact of rising inflation

Rent increases for social housing tenants are directly linked to the rate of inflation through the Consumer Price Index. The September 2021 rate of 3.1% meant, with the additional 1% under the rent setting formula, most faced an increase of 4.1% in April 2022. The Resolution Foundation’s [Housing Outlook](#)

¹⁰¹ Social Housing, “Government announces rent settlement”, 5 October 2017

¹⁰² Ministry of Housing, Communities and Local Government (MHCLG), [Rents for social housing from 2020-21: a consultation paper \(PDF\)](#), 13 September 2018

¹⁰³ MHCLG, [Rents for social housing from 2020: government response to the consultation \(PDF\)](#), February 2019

¹⁰⁴ As above.

[for Q4 2021](#) (PDF) observed that this would be “the largest rise for a decade” and went on:

...inflating the average social renter family’s rent by £202 per year. This increase comes on the back of a decade-long period in which social renters’ housing costs have outpaced incomes, and support from the benefit system has declined.¹⁰⁵

Around 44% of social renters who were not in receipt of assistance through Housing Benefit, or the housing element of Universal Credit were identified as “most exposed” to above inflation rent rises.¹⁰⁶

An Inside Housing survey found that all England’s largest housing associations raised rents by the maximum amount allowed for 2022/23.¹⁰⁷ Landlords said this would ensure “vital investment work” is carried out – they are also facing financial pressures due to inflation.¹⁰⁸

With CPI forecast to reach double figures by September 2022, Moody’s referred to the “challenging decisions” social landlords would face when setting rent increases for 2023/24.¹⁰⁹ The Social Housing Regulator CEO, Fiona MacGregor, reportedly said housing providers face an “extremely difficult” decision on rent setting in 2023/24, adding that Boards should think about what they want to do.¹¹⁰

Capping rent increases in 2023-24

On 31 August 2022, the Government opened a consultation exercise seeking views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. The consultation focused on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024. This would act as an upper limit on the maximum amount by which registered providers of social housing can increase rents in that year. The consultation sets out a potential rent ceiling of 5%:

We are open to views from consultees on where the ceiling should be set. By law, we must consult on a draft direction, and our draft direction is based on setting the ceiling at 5%. This would act as an upper limit on the maximum permitted annual rent increase a Registered Provider is allowed to implement. Registered Providers would be permitted to increase rents by 5% or CPI+1%,

¹⁰⁵ Resolution Foundation, [Housing Outlook for Q4 2021](#) (PDF), December 2021

¹⁰⁶ As above.

¹⁰⁷ “All major English housing associations increase rent by maximum amount”, Inside Housing, 7 April 2022 [login required]

¹⁰⁸ NHF, [Cost inflation for housing associations](#), 28 August 2022

¹⁰⁹ “Associations face ‘challenging decisions’ over rents amid cost of living crisis, warns Moody’s”, Inside Housing, 13 June 2022 [login required]

¹¹⁰ Housing Quality Network, [Regulator warns of ‘extremely difficult’ rent setting decision](#), 28 June 2022

Social rent increases will be capped at 7% in 2023/24

whichever is the lower. However, within this consultation, we are seeking views on 3%, 5% and 7% as ceiling options, and we are also open to other percentage proposals that may be put forward by consultees.¹¹¹

Consultation closed on 12 October 2022 and the outcome was announced during the [Autumn Statement 2022](#) (PDF). An increase based on CPI could have resulted in increases of 11.1%, instead they will be capped with a maximum rise of 7%:

Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023-24. This will save the average tenant in the social rented sector £200 next year and will generate an overall saving to government of around £630 million over 5 years.¹¹²

Supported housing is exempt from the cap.

In general, the sector welcomed the move to cap rents at 7% for one year - the need to protect tenants from “an unthinkable” 11.1% increase was widely recognised.¹¹³

During the consultation process the NHF and Local Government Association highlighted the potential impact on services if any resulting funding gap was not addressed:

...we are very concerned that a new cap on social housing rent increases will significantly impact on housing providers’ ability to provide critical services for residents and invest in new and existing homes.

Decisions on the level of rent increases for tenants need to be made by housing providers within the existing government rent policy commitment, ensuring that there is a careful balance between affordability for tenants and investment in the homes that they live in.

If the Government does take forward a lower cap, then it should provide additional funding for 2023/24 and for future years so that housing providers can continue to safeguard services and meet the country’s future housing needs.¹¹⁴

The implications of rents not keeping pace with inflation include:

- Service delivery reductions at a time of increased focus on regulatory control and higher consumer expectations.

¹¹¹ DLUHC, [Social housing rents consultation](#), 31 August 2022

¹¹² HM Treasury, [Autumn Statement 2022](#), CP 751, para 2.50

¹¹³ [Autumn statement: Social rents capped at 7%, sector reacts - HQN \(hqnetwork.co.uk\)](#), 17 November 2022 [accessed 7 December 2022]

¹¹⁴ [LGA and NHF respond to social housing rent cap consultation](#), 31 August 2022

- Lower levels of new development. Lower rental income reduces landlords' ability to service additional debt and the value of new social and affordable rented homes. The sector is also facing the effect of inflation on construction and management costs.
- Lower investment in the existing stock, such as measures to improve thermal efficiency and carry out fire remediation work. Much of this work is not optional so landlords may need to consider their timetables for completion.¹¹⁵

[The 2022 UK Housing Review Autumn Briefing Paper](#) considered social sector rents before the outcome of the consultation exercise was announced. Considerable effects on the sector's finances were identified – one large association indicated a 7% cap would mean a 21% cut in new-build activity.¹¹⁶

John Perry argued for housing benefit savings arising from the cap to be recycled back to the sector “both to maintain investment in the stock and to sustain the funds used to mitigate tenant hardship.”¹¹⁷ The National Housing Federation's submission to the consultation exercise also referred to the use of any resultant housing benefit savings:

If the government does impose a ceiling on increases it should also provide grants to support investment in homes and services for residents, to at least the level of the benefit savings resulting from any cap.¹¹⁸

While the sector is confident the rent cap for one year can be managed, there is focus on what might happen in future years. An Inside Housing article of 17 November 2022 reported on the possibility of DLUHC launching a call for evidence in 2023 “to look at a ‘convergence’ rent policy, which could come into effect in a rent settlement in 2025.”¹¹⁹ Such a policy might allow social landlords to bring rent levels up to what they would have been had the cap not applied over a period of five to ten years.¹²⁰

¹¹⁵ “What should be done about the looming question of social housing rents? Inside Housing, 27 June 2022 [login required]

¹¹⁶ [The 2022 UK Housing Review Autumn Briefing Paper](#), Perry J, Chartered Institute of Housing and the University of Glasgow, 5 October 2022, p6

¹¹⁷ As above.

¹¹⁸ [Social housing rent increases in 2023 – NHF submission](#), 13 October 2022

¹¹⁹ Inside Housing, “Government to consider allowing social landlords to claw back some rent lost due to cap”, 17 November 2022 [login required]

¹²⁰ As above.

5

Affordable rents

The Coalition Government announced an intention to introduce a new “intermediate rent” tenure as part of the October 2010 Spending Review. Under this model housing associations can offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment in the development of new housing. Detailed information can be found in the Library briefing: [Affordable Rents \(England\)](#).

The then-Housing Minister provided some additional information in a written statement on 9 December 2010. He clarified that the rent restructuring policy would not apply to properties let at affordable rents:

Affordable Rent properties will not be subject to the rent restructuring policy that applies to social rented housing. This policy was originally outlined by the previous government in March 2001 (in the Guide to Social Rent Reforms) and implemented by the then Housing Corporation (via the Rent Influencing Regime Guidance published by the Corporation in October 2001). The previous government's direction to the Tenant Services Authority issued in November 2009 required the regulator to set a standard on rent that reflected the same policy.

In particular, the direction required the Tenant Services Authority, when setting a standard on rents, to have regard to the Social Rent Guidance. The direction defined the term 'Social Rent Guidance' as the Guide to Social Rent Reforms published in March 2001 "and any guidance issued by the Department, or its successors, in relation to that document." This statement should be treated as guidance issued in relation to the March 2001 document. The direction also obliged the Tenant Services Authority to set a rent standard with a view to achieving, so far as possible, the target rent policy set out in the Rent Influencing Regime Guidance.

This statement clarifies that Affordable Rent properties are not covered by the Government's rent restructuring policy. Note that a property is only considered to be 'Affordable Rent' for these purposes where it is linked to an agreement with the Homes and Communities Agency on investment.

Housing associations will be able to let an Affordable Rent property (whether a converted void or new build) at up to 80 per cent of market rent for an equivalent property for that size and location. The association's calculation of the market rent would need to be based on a residential lettings estimate for a property of the appropriate size, condition and area. Valuations should be in accordance with a RICS recognised method.

The maximum annual rent increase on an Affordable Rent property will be RPI + 0.5 per cent. However associations will be required to rebase the rent on each occasion that a new tenancy agreement is issued (or renewed) for an Affordable Rent property. This requirement, which overrides the RPI + 0.5 per cent limit, is designed to ensure that the rent set at the beginning of each new tenancy is no higher than 80 per cent of the market rent.¹²¹

The December 2012 rent guidance published by the HCA said:

The maximum annual rent increase for Affordable Rent is similarly based upon the September RPI+0.5%, so the limit for 2013-14 is 3.1%.

Details on how Affordable Rent property levels of rent should be set for new and re-issued tenancies are provided in the Rent Standard Guidance.¹²²

[Guidance on rents for social housing](#) (PDF) published in May 2014 included a section (3) on rent increases for Affordable Rent properties. Rent increases for these properties were also expected to follow the CPI +1% formula from April 2015.

The requirement to reduce rents by 1% in each year for four years from April 2016 (see section 3 of this paper) also applied to properties let at affordable rents.

¹²¹ HC Deb 9 December 2010 c31-4WS

¹²² [Guideline rent limit for private registered providers 2013-14](#) (PDF), December 2012

6 Pay to stay at market rents

In June 2012 DCLG published a consultation document, [High Income Social Tenants: pay to stay](#) (PDF), in which it proposed an income threshold above which tenants in social housing would be charged higher rents. The Coalition Government confirmed it would implement this policy change as part of the 2013 Budget announcement:

The Government also wants to make sure that affordable housing is available to those who need it most. The Government recently consulted on ‘Pay to Stay’ proposals to ensure that those social housing households on high incomes make a fairer contribution. The Government will shortly take steps towards allowing social landlords to charge market rents to tenants with income of over £60,000. The Government intends to require these tenants to declare their income to ensure they make a fair contribution, with all additional income reinvested in housing.¹²³

Pay to stay is currently discretionary; social landlords can charge tenants with an income of over £60,000 a market rent. The Guidance on rents for social housing (May 2014) provides details on whose income should be taken into account and what counts as income for the purposes of the policy. It is unclear how many, if any, landlords have implemented higher rents for this category of tenant.

As part of the Summer Budget 2015, the Chancellor announced the discretionary pay to stay scheme would be made compulsory (in England) and that new, lower, income thresholds would be introduced. These thresholds were confirmed at £40,000 in Greater London and £31,000 elsewhere. Local authorities were expected to repay the additional rental income to the Exchequer, thus contributing to deficit reduction, while associations would have been able to use the additional income to reinvest in new housing. After the Office of National Statistics (ONS) declared housing associations to be public sector bodies at the end of 2015, the Government announced that pay to stay would be discretionary for housing association landlords.

Measures to introduce a mandatory pay to stay scheme for local authorities were included in the Housing and Planning Act 2016. A consultation exercise, [Pay to stay: fairer rents in social housing](#) (PDF), was conducted between 9 October and 20 November 2015, the results of which were published on

¹²³ HM Treasury, [Budget 2013](#) (PDF), HC 1033, para 1.113

8 March 2016: [Pay to stay: fairer rents in social housing - consultation response](#) (PDF).

The Government confirmed that a 15% taper would be applied above the minimum income thresholds and that households in receipt of Housing Benefit would be exempt from paying higher rents. The Government's aim had been to implement the mandatory pay to stay scheme from April 2017.

The [Impact Assessment on Social Rent Reductions](#) (PDF) described pay to stay as a “complementary measure that would create additional rental income for housing associations to help mitigate the impact of rent reductions.”¹²⁴

On 21 November 2016, then-Housing Minister, Gavin Barwell, [announced](#) the Government had decided not to proceed with a compulsory approach and that local authorities and housing associations “will continue to have local discretion.”¹²⁵

For more information see Library briefing paper: [Social housing: pay to stay at market rents.](#)

¹²⁴ [Impact Assessment on Social Rent Reductions](#) (PDF), 28 September 2015

¹²⁵ [Social housing: Written Statement – HCWS274](#), 21 November 2016

7 Alternative approaches to rent setting

7.1 A living rent?

Funded by the Joseph Rowntree Foundation and the National Housing Federation, Mark Lupton and Helen Collins from Savills Housing Consultancy developed a rent model linked to household income in 2015. The model was reportedly tested against the business plans of seven social landlords. These tests showed “that the earnings-linked rent model is viable for landlords if it is gradually phased in through relets and supported by subsidy through either grant funding or through government guarantees.”¹²⁶

The model is explained in [Living Rents – a new development framework for Affordable Housing](#), (PDF, June 2015).

7.2 Rent flexibility for housing associations?

In November 2014 Chris Walker, for the Policy Exchange think-tank, published [Freeing Housing Associations: Better financing, more homes](#). This report proposed a package of measures aimed at increasing the capacity of associations to develop more housing. As part of the package housing associations would gain freedom to develop their own rent policy:

Under a radical new plan proposed in the paper, housing associations could “opt-out” of their historical government grant which binds them to these rules. A new category of what the report calls ‘Free Housing Associations’, would buy out their historical grant from the government at a discounted cost in return for the removal of regulatory restrictions. Paying off the government grant would raise significant cash for the Treasury. The report shows that a combination of sale proceeds along with debt interest savings could raise over £300million a year by the end of the next Parliament and as much as £550million a year within 30 years.

The paper makes a number of recommendations for new grant-free housing associations including:

¹²⁶ “Social landlords lobby for radical rent model,” Inside Housing, 19 September 2014 [login required]

1. Allowing them to sell off expensive social homes in order to build a greater number of new affordable homes without having to get permission from the Homes and Communities Agency.
2. Extending the Help to Buy scheme for new homes beyond 2020 for housing associations to allow them to build more market homes for sale. Profits could be used to cross subsidise affordable homes.
3. Allowing them to set their own rent policy. Instead of having a number of different rents for similar properties inhabited by similar households, as dictated by government, grant-free associations could set a single rationalised rent or cheaper rents to reward good tenant behaviour.

Free Housing Associations could then be free to double the number of new homes built every year from 50,000 to 100,000. Currently housing associations build 45,000 affordable homes and 5,000 private homes every year. The paper expects that number to increase to 60,000 affordable homes and 40,000 private homes if they had more freedom from the regulator, the Homes and Communities Agency (HCA) and local authorities.¹²⁷

The National Housing Federation launched a member consultation on the future of housing association rents in November 2016. The consultation explored the concept of rent freedom, whereby housing association boards would be empowered to set the rent policy for their organisations. Views were sought on the principle and more specific topics and issues. An [NHF briefing](#) (February 2017) summarised NHF members' responses and outlined how the Federation intended to take this work forward.

Most respondents supported the principle of rent freedom and believed “the key drivers of future rent policy should be control, fairness for tenants and transparency.”¹²⁸

7.3

A 30-year rent settlement?

In [Delivering on London's Housing Requirement: interim report](#) (2021) the London Housing Directors' Group and G15 examined barriers to housing delivery in London, particularly for affordable housing.

In addition to increased grant funding, the report called on Government to “make a 30-year commitment to increase social housing rents by CPI+1% starting immediately.”¹²⁹ The London Tenants Federation issued a response which referred to this proposal as controversial, saying it would “lead to

¹²⁷ Policy Exchange, [Freeing Housing Associations: Better financing, more homes](#), 12 November 2014

¹²⁸ [Rent Freedom: the future of housing association rents \(PDF\)](#), February 2017

¹²⁹ As above.

many social housing tenants being at risk of in-work poverty, debt and reliance on benefits.¹³⁰

7.4 Levelling rents (2022)

On 19 October 2022 Network Homes published [Levelling Rents](#) which argues that high affordable rents reduce living standards and work incentives. The suggested response is to raise all below average social rents each year by £2 per week above the usual yearly increase which would, in turn, allow landlords to reduce the highest affordable rents over time.

On launching the report, the chief executive of Network Homes said:

A policy of levelling rents would reduce the number of relatively high rents, reinstating work incentives and should be combined with the abolition of the benefit cap. It would also reduce the unfairness of wildly disparate rents which don't reflect size, location or quality. At Network Homes, such changes would allow us to bring more than 650 of our highest rents down to social rent levels over ten years and more over time.¹³¹

¹³⁰ London Tenants Federation, [Our response to G15 and London Council's Delivering on London's Housing Requirement: interim report](#), 27 September 2021

¹³¹ [Network Homes proposes fairer social housing rents](#), 19 October 2022

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