Gateshead Council

REPORT TO CABINET
17 December 2024

TITLE OF REPORT:
Future Social Housing Rent Policy – Response to Consultation

REPORT OF:
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Purpose of the Report

1. Cabinet is asked to agree the proposed response to the Government's consultation on the Future Social Housing Rent Policy

Background

2. On 30 October the Ministry of Housing, Communities and Local Government (MHCLG) launched a consultation to seek views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to the social housing rent policy to be introduced from 1 April 2026. The consultation runs until 23 December 2024.

3. The Government has committed to the biggest increase in social and affordable housebuilding in a generation. It is also committed to ensuring that people renting homes in both the social and private rented sectors can live in safe and decent housing. It is therefore vital that their rent policy for social housing gives Registered Providers the stability they need to invest in new and existing homes, while also ensuring that there are appropriate protections for existing and future social housing tenants. These aims underpin the rent policy proposed in this consultation.

4. The proposed Direction would apply to all Registered Providers including local authorities that are registered providers; and other bodies, such as housing associations, that have registered with the Regulator.

5. 'Social housing' comprises low-cost rental accommodation (e.g. homes let at Social Rent or Affordable Rent) and low cost home ownership accommodation (e.g. shared ownership homes). The proposed Direction would apply to low-cost rental accommodation, but not to shared ownership homes.

6. The consultation proposes a rent policy to remain in place for at least 5 years from 1 April 2026 to 31 March 20231. They are also seeking views on alternative lengths of settlement including a longer 7 or 10 year rent settlement or a rolling 5 year settlement.

7. The Government considers it essential that the limit on annual rent changes should be index linked and related to the Consumer Price Index (CPI). To ensure rents can continue to rise in real terms and there is financial capacity for register providers to invest in new and existing homes it is proposed to continue the current limit of CPI+1%. They also consider that this would avoid imposing a financial strain on rent payers and welfare spending in excess of the existing policy.

8. The Government has considered whether to permit rents on Social Rent homes that are below formula rent to increase an additional amount above CP+1% through the reintroduction of a convergence mechanism. This is not proposed in the consultation with the reason being cited as being due to the impact on disposable income of tenants who are affected by rent increases and result in higher welfare spending.

Proposal

9. The proposed response to the consultation is included as Appendix 2 to this report. The main theme of the proposed response is that Gateshead would benefit from rent stability but to ensure that there is confidence in the sector there are several other measures that the Government need to consider.

Recommendations

10. It is recommended that Cabinet:

(i) Agree the proposed response to the Government's consultation on the Future Social Housing Rent Policy

For the following reason:

(i) To enable the Council to contribute a response to the proposed policy.

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Appendix 1

Policy Context

1. The Council's Rent and Service Charge Setting Policy ensures the Council adheres to current government legislation and regulation when setting and agreeing rents and service charges.

2. The Government has committed to the biggest increase in social and affordable housebuilding in a generation. It is also committed to ensuring that people renting homes in both the social and private rented sectors can live in safe and decent housing. It is therefore vital that their rent policy for social housing gives Registered Providers the stability they need to invest in new and existing homes, while also ensuring that there are appropriate protections for existing and future social housing tenants. These aims underpin the rent policy proposed in this consultation.

3. The Government will consult on a proposed new Decent Homes Standard in early 2025 which will aim to ensure that safe, secure housing is the standard tenants can expect in both social and private rented properties. Views on implementation timescales will be sought as part of the consultation.

4. They will also consult shortly on plans to introduce minimum energy efficiency standards for social rented sector homes that could require investment to meet Energy Performance Certificate C or equivalent by 2030. These requirements could oblige registered providers to invest more in existing homes.

5. The Government will bring forward legislation for Awaab's Law in the social rented sector so that hazards such as damp and mould must be investigated and remedied to set timescales.

6. There will also be a Direction to the Regulator of Social Housing to introduce a new competence and conduct standard and requirements for providers to meet new access to information requirements in early 2025.

7. Housing Benefit and the housing element of Universal Credit ('HB/UCHE') helps those on low incomes to pay their rent. For social housing tenants, the maximum amount of HB/UCHE is based on actual rents, as opposed to the private rented sector where the maximum is set by the Local Housing Allowance. The maximum amount of HB/UCHE is then subject to deductions, for the Removal of the Spare Room Subsidy (RSRS) and the benefit cap. For those subject to the RSRS or the benefit cap, further support may be available through Discretionary Housing Payments (DHP), which are delivered via local authorities.

Background

8. On 30 October the Ministry of Housing, Communities and Local Government (MHCLG) launched a consultation to seek views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to the social housing rent policy to be introduced from 1 April 2026. The consultation runs until 23 December 2024.

9. Most rented social housing properties are let at 'Social Rent'. Social Rents are set using a formula specified by government. This creates a 'formula rent' for each

property, which is calculated in a way that takes account of the relative value of the property, the size of the property and relative local income levels. Landlords have flexibility to set initial rents up to 5% above the formula rent and 10% in the case of supported housing.

10. In 2011, 'Affordable Rent' was introduced. This permits rents to be set at up to 80% of market rent (inclusive of service charges). Landlords can only let homes at Affordable Rent where certain conditions apply.

11. Since April 2020, Registered Providers have been permitted to increase rents by up to Consumer Price Index (CPI) +1% per annum (with the CPI rate taken at the previous September. This policy was temporarily suspended in 2023/24 and replaced by a 7% limit on annual rent increases in that year (with the exception of supported housing). This did not affect formula rent or the rent caps, which have increased by CPI+1% and CPI+1.5% respectively each year since 2020.

12. The consultation proposes a rent policy to remain in place for at least 5 years from 1 April 2026 to 31 March 20231. They are also seeking views on alternative lengths of settlement including a longer 7 or 10 year rent settlement or a rolling 5 year settlement.

13. The Government considers it essential that the limit on annual rent changes should be index linked and related to the Consumer Price Index (CPI). To ensure rents can continue to rise in real terms and there is financial capacity for register providers to invest in new and existing homes it is proposed to continue the current limit of CPI+1%. They also consider that this would avoid imposing a financial strain on rent payers and welfare spending in excess of the existing policy.

14. The Government has considered whether to permit rents on Social Rent homes that are below formula rent to increase an additional amount above CP+1% through the reintroduction of a convergence mechanism. This is not proposed in the consultation with the reason being cited as being due to the impact on disposable income of tenants who are affected by rent increases and result in higher welfare spending.

Impact on Gateshead Council Housing Revenue Account

15. The current Housing Revenue Account (HRA) 30-year Business Plan assumes inflation on rent and service charges of CPI from 1 April 2026. By amending the assumption to CPI+1% for 5, 7 and 10 years this has the following impact on income:

	Income Projection					
Modelling Scenario	**5 years £000**	**10 years £000**	**15 years £000**	**20 years £000**	**25 years £000**	**30 years £000**
Current Business plan Income	486,023	1,018,678	1,598,088	2,226,717	2,911,748	3,658,354
5 year settlement	491,852	1,049,583	1,658,378	2,320,139	3,042,621	3,831,496
7 year settlement	491,852	1,054,852	1,674,888	2,348,836	3,084,591	3,887,921
10 year settlement	491,852	1,055,936	1,692,128	2,384,809	3,140,965	3,966,512
Difference between options						
5 year settlement	5,829	30,905	60,290	93,422	130,873	173,142
7 year settlement	-	5,269	16,510	28,697	41,970	56,425
10 year settlement	-	1,084	17,240	35,973	56,374	78,591

16. The HRA self-financing settlement in 2012 was based on a set of assumptions and the net present value of HRA's to determine the level of borrowing that could be supported and enable HRA's to be self-financing.

17. Comparing the self-financing settlement with the actual rent over the period 2012/13 to 2023/24 (last full accounting year) the total actual rental income over the period is £179.897m less. This is due to:
    - not reaching convergence,
    - a change in the formula from RPI +0.5% to CPI +1%
    - the Welfare Reform and Work Act 2016 4 years of 1% reduction

18. The following factors related to rental values have been considered in developing the response:
    - Average weekly rents assumed in the self financing settlement is £22.22 per week more than the current average rent equating to approx. £19m in income.
    - The average formula rent for a 3 bedroom property is £110.82 per week (50 weeks) compared to the actual average rent of £104.67 and therefore on average tenants pay £6.15 less that the maximum social rent which for this type of property alone equates to just over £1.6m less in rental income. Overall, it is approx. £4m in rental income across all stock after voids.
    - Private rented market rents are increasing sharply a 3 bedroom house will rent on average for £899 per month (HomeTrack at 15 November 2024) compared to a Council property rent of £436 in 2024/25.

19. Since the self-financing settlement there have been other changes which have detrimentally impacted HRA's such as changes to Right to Buy discounts, increased building safety regulations, net zero carbon targets, increased regulation and hyperinflation.

20. In the general fund for changes in government policy or legislation there is the new burdens doctrine which looks to fund the additional cost pressures arising from these changes, but this is not extended to the HRA and therefore there is no protection offered to HRA's who must ensure they can manage and maintain their stock essentially from the rental income and any sales receipts.

21. The consultation response therefore includes at question 9 other steps which need to be considered to ensure that HRA business planning is sustainable, and the necessary funds are available to invest in existing and new stock.

Consultation

22. Consultation has taken place with the Leader and Deputy Leader, Cabinet Member for Housing and the Strategic Housing Board

Alternative Options

23. There are no alternative options proposed.

Implications of Recommended Option

24. **Resources**

a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the proposals in the consultation will have a positive impact upon the Housing Revenue Account Business Plan.

b. **Human Resources Implications** – No direct human resources implications.

c. **Property Implications** – The proposals in the consultation will support the delivery of the HRA Business Plan including investment priorities and the HRA Asset Strategy which helps to improve the overall sustainability of the HRA and supports the delivery of corporate priorities under the Thrive agenda.

25. **Risk Management Implications –** The added risks arising from self-financing and welfare reform mean that the Council must continue to manage and maintain its housing stock from the rents collected.

26. **Equality and Diversity Implications** – No direct equality and diversity implications

27. **Crime and Disorder Implications** – No direct crime and disorder implications.

28. **Health Implications** – No direct health implications. The proposals in the consultation will support the delivery of the HRA Business Plan including investment priorities which are likely to have positive health outcomes.

29. **Sustainability and Climate Emergency Implications** – The proposals in the consultation will support the delivery of the HRA Business Plan including investment priorities and the HRA Asset Strategy which includes net zero carbon measures for the Council's housing stock.

30. **Human Rights Implications** – No direct human rights implications.

31. **Area and Ward Implications** – All wards will be affected by the proposals in this report.

Background Information

Policy Statement on Rents for Social Housing February 2019
Rent Standard 2020
Direction on the Rent Standard 2023
Social Housing Regulation Act 2023
Future social housing rent policy – Consultation Document October 2024

Appendix 2

Future Social Housing Rent Policy – Response to Consultation

Question 1 Do you agree with our proposal that the government should set a rent policy that will remain in place for at least the next 5 years, from 1 April 2026 to 31 March 2031?

The sector needs stability there have been commitments made by previous governments of a long-term rent settlement for them to be cancelled which has impacted social landlords and third party investors' confidence that rent policies will be upheld.

HRA business planning relies on assumptions and those assumptions drive what resources are available to enable investment in both existing and new stock. Whilst Councils can borrow to fund capital investment there needs to be sufficient revenue resources to service the cost of the debt.

Due to the uncertainty about rent policy and that the 2020 policy would be adhered to many business plans are based on CPI only whilst costs are increasing above this rate due to regulatory changes, net zero carbon commitments and legislative changes together with the impact of both Covid 19 and the war in Ukraine which has pushed up prices in the construction sector.

Certainty around rental policy would provide some much needed stability for HRA's to enable business plans to be developed with certainty at least around the policy. Whilst any inflation assumptions will be just that they are monitored closely and refreshed at least annually as part of the Council's financial planning cycle.

Question 2 What impact would a longer settlement have, and what alternative length should a settlement be? (e.g. 7 years / 10 years?)

Whilst there are benefits of a longer-term settlement providing even greater certainty this would need to be in the context of responses provided to question 5, 6 and 9. The issue with a longer term settlement is the impact of changes in the sector during that period and how these can be met from the rental income.

This is especially important in the context of a situation where inflation was to run either at zero or a negative amount resulting in little of no increase in rents. It is unlikely that there would be no cost pressures given National Living Wage will increase by 6.7% from April 2025 despite CPI inflation running at 1.7% and there are also additional pressures from the National Insurance changes. Whilst the increase in the regulation of the sector will improve the sector this does not preclude the potential for there to be new burdens on social landlords over a longer policy term.

Question 3 Would a rolling settlement of 5 years (where the 6th year is set 5 years in advance) provide additional stability or certainty?

This approach would help to address the concerns raised in the response to question 2. However, there needs to be consideration of the potential need to consult in future should some of the issues raised in response to question 2 were to occur.

Continuation of a policy without consideration of the wider impacts on the sector would potentially be damaging and undermine the current proposed policy reforms.

Question 4 What impact would these alternative lengths of rent settlement have on providers' willingness and ability to invest in new and existing homes?

The ability to invest in new homes goes beyond the extent of the income from rents and is covered in response to question 9.

In addition, the measures announced in relation to right to buy will enable receipts to be retained and reinvested in new and existing stock but will also help to reduce the level of stock lost through the right to buy process which is often the better performing stock and therefore attractive for tenants to buy especially given the level of discount.

The change to the cost floor will especially help in the investment in new stock and that protection from right to buy which is often a consideration in the development of general needs housing.

Question 5 Are there rent policy measures that would provide confidence in the stability of our policy in the event of an inflationary spike?

Social Landlords need to be able to cover their costs and therefore if inflation is rising then costs will also be rising and therefore any restriction on rent increases outside of the rent policy will impact HRA business plans and have a detrimental impact on the ability of Council's to continue to cover their costs which will require efficiencies and savings and impact upon the ability to invest.

Whilst it is important that rents are affordable for tenants Council's need to have the assurance that there will not be government intervention during a policy period and for those receiving welfare support their housing costs are covered.

Question 6 Are there other steps that the government should take to build confidence in the stability of its rent policy

Assurance that any impact from imposed rent caps or similar deviation from the agreed rent policy are cost neutral for Housing Revenue Accounts and that central government will fund any impact.

The impact of imposing rent caps or similar do not just impact in one year they limit the rent base on which future rents are based and this has significant impacts for social landlords. This approach fundamentally undermines the ability for councils to plan and deliver investment programmes.

Question 7 Do you agree with our proposal that rents should be permitted to increase by up to CPI+1% per annum?

In Gateshead 92% of social housing is let below the formula rent and whilst there is a policy to relet at formula rent following a period of the property being void this is the only opportunity for the rent to move towards formula rent. Formula rents were not subject to the cap of 7% in 2023/24 and therefore increased by 11.1% thus increasing the gap between the amount of rent being charged to current tenants and the formula rent for that property.

Restricting annual rent increases to CPI+1% puts additional pressure on Councils specifically as the rent base is now significantly lower than the 2012 rent settlement which provided for an annual increase of RPI+0.5%+£2 to enable convergence with the formula (target) rent. In Gateshead had the assumptions on rent increases in the self-financing settlement been adhered to since 2012 then the weekly rent on average using the settlement (not the actual inflation) would have been £22 higher per week than it is now.

Rents in the private rented sector have risen significantly in recent months and for comparison the rent for an average 3 bedroom house in Gateshead is currently £215.76 per week (50 weeks) compared to a current social rent of £104.67 (50 weeks) this is a difference of 106%.

The formula rent on average for a 3 bedroom property is £110.82 and therefore on average tenants in Gateshead pay £6.15 less than the maximum social rent which for this type of property alone equates to just over £1.6m in rental income (pre void loss).

Consideration needs to be given to the ability to move towards convergence using a gradual approach to manage the affordability impact. Where tenants are eligible for welfare support with housing costs increases should be met in full.

Question 8 What do you consider would be the impact of our proposed rent policy on affordability for rent payers and the willingness and ability of registered providers to invest in new and existing homes over the next 5 years?

See response to question 4 for the latter part of this question. This response relates to the first part of the question about affordability for rent payers.

Gateshead Council recognises that consideration has been given to setting the rent policy below CPI or at CPI which would have a positive impact on those tenants who pay for their rent or those impacted by the benefit cap or the removal of the spare room subsidy.

This consideration must be balanced against the policy objective of stimulating more investment in the sector as setting future rent policy increases at CPI or lower would significantly limit the ability for the investment in both new and current housing stock. It would also likely impact the ability to attract new investors to invest in the sector.

The use of CPI+1% means rents will increase in real terms, notwithstanding previous comments about additional cost pressures within the sector, and it would ensure that there is not an additional pressure on tenants above the increases permitted in the current government rent policy.

The response to question 7 outlines the disparity in Gateshead between the private rented sector and the social rented housing sector and furthermore the disparity between current social housing rents and the maximum formula rent that could be charged. This is for a 3 bedroom property only and this can be exemplified across the stock using average total rents to give a loss of income of £4.5m (before void loss).

In the budget the 6.7% increase in the national living wage and the 16.3% increase in national minimum wage and the extension of the national living wage from age 23 to age 21 will have a positive impact upon the income of tenants.

Question 9 Do you have views on other measures, outside rent policy, that could help to rebuild registered providers' capacity to invest in new and existing homes?

The ability to invest in housing stock is driven by the ability for housing providers to ensure their 30 year business plans are sustainable and that income levels are sufficient to cover their costs.

Whilst having a sustainable, consistent income source is an advantage this income at its most basic must cover the costs of management, maintenance and debt financing. Whilst rents may be permitted to rise with a measure of inflation, we have seen maintenance and construction costs rising far beyond this level which is putting pressure on the ability to deliver new housing whilst also ensuring there are adequate resources to invest in the existing stock together with ensuring new legislation around building safety is adhered to.

There are several other measures that could be considered that would assist Local Authorities specifically to invest in new housing.

- Provision of one-off capital investment to compensate HRAs for the changes to rent policy since 2012.
- Application of the new burdens doctrine to be extended to HRAs
- Consideration of the reopening of the 2012 HRA self-financing settlement to account for the actual position of Council's since then.
- Simplification of the grant funding system for housing capital investment
- A Commitment to reduce the cost of HRA borrowing to the previous rates of 0.15% above central government's borrowing costs and maintain this for the longer term and enabling repayment and refinancing expensive older PWLB debt without penalties.