Government consultation on 2023 rent increases

Briefing for housing associations

6 September 2022

Summary

This briefing summarises the government's consultation on capping social housing rent rises in 2023, provides the NHF's analysis, and seeks member feedback on a set of questions to inform our response.

We are also asking members to complete this survey, to better capture data on the possible impact of the government's proposals. The data from this survey will be vital to help us put together a sector response. Please complete by 28 September.

We have organised a series of member roundtables and other engagement opportunities to seek input. Full details can be found on our website.

We would like to thank all the members who have shared their views with us on this issue over recent months, ensuring that all our engagement with the government has been rooted in the experience of members and the challenges you face.

All responses to the questions in this briefing will be treated confidentially, and only shared in aggregate and anonymously.

Please share written answers to these questions by Wednesday 28 September, by emailing to will.jeffwitz@housing.org.uk

Introduction

The government has launched a consultation on capping social housing rent increases in 2023, in response to extremely high inflation and the possibility of 10-11% rent rises next year.

The consultation runs for six weeks until 12 October. The government will make a decision soon after and confirm this via issuing a new direction to the Regulator.

During the consultation period the NHF is keen to hear views from all parts of our membership, to help shape our response. We set out some key questions throughout this briefing. Feedback in writing can be sent to will.jeffwitz@housing.org.uk. We have also organised a range of member briefing events and roundtables, with full details on our website.

Background

Housing associations have been considering the issue of rent increases very seriously in recent months. Many have been thinking hard about limiting rent increases well below inflation, and about other support that can be provided to tenants, while balancing the impact on investment in homes and services for residents.

We believe that housing association boards are best placed to make these decisions for their own organisation, but have also discussed the possibility that the government may want to give tenants greater certainty during this incredibly difficult time

On this basis, the NHF has been engaging with ministers and officials for a number of months and have set out the sector's position and the impact government intervention would have. We've shared evidence on the impact of inflation, demonstrated our sector commitment to affordability, and highlighted the potential impact of any government action on investment in homes and services for residents, as well as the grave impact any cap could have on supported housing.

Consultation proposals

The consultation proposals aim to protect existing social tenants from significant nominal-terms rent increases next year, by capping social housing rent increases for April 2023.

The consultation acknowledges that many social housing providers might choose to cap rents well below CPI+1% without government intervention, but argues that imposing a ceiling on rent increases would provide a ‘backstop of protection for tenants in these exceptional circumstances”.

The consultation seeks views on where this cap or ‘ceiling’ should be set. It proposes three possible options - caps at 3%, 5% or 7% - but also asks for views on whether a different ceiling should be set.

It recognises the significant impact this would have on housing associations’ ability to invest in homes and services for tenants and the ‘tough choices’ required. It asks for evidence of the impact each scenario would have on affordability for tenants and capacity to invest in homes and services for residents.

The consultation recognises that “some parts of the social housing sector such as supported housing may, due to their operating margins or business models, be less resilient to financial pressures” and asks for evidence on whether any exceptions should be made to the cap.

The proposal is for a one year cap, but it asks whether the cap should be extended to cover two years, given projections for continued high inflation next year.

It states that the cap would not apply to new lets or relets, and that formula rent would continue to increase by CPI+1%.

It also clarifies that the CPI+1% policy only applies to rent increases, and where inflation falls below -1%, providers are not required to reduce their rents.

The detailed impact assessment sets out the financial impact of each scenario on tenants, landlords and the government over five years, compared to a scenario where rents are increased by the full CPI+1% (although it acknowledges that many providers might voluntarily choose to set rents below this level without government intervention). In particular, it highlights that over 60% of the savings from any ceiling accrue to government – via benefit savings – rather than to tenants.

NHF response

We welcome the opportunity to engage with the government on this important question, and will use the next six weeks to develop a comprehensive response on behalf of members.

To help develop that response, we have set out our initial analysis below followed by a series of questions.

Impact of a ceiling on rent increases

We believe that housing association boards are best placed to make decisions about rent increases, reflecting the unique nature of each housing association's tenants and homes. We know that many housing associations would consider imposing rent increases significantly below CPI+1%, if they retain this discretion.

Any government limit to the increase will inevitably impact housing associations' ability to invest in our key shared priorities – improving the quality and safety of social homes, investing in decarbonisation, and building new social housing. Any limit to rent increases will be very challenging and measures will need to be put in place to protect viability.

- A cap set at 3% would make the challenges almost unmanageable for many organisations and require substantial intervention to safeguard viability.
- A cap set at 5% would present significant challenges for some organisations, and severely reduce investment in new and existing homes next year and for many years to come.
- A cap set at 7% would mean organisations having to take difficult decisions about what to prioritise and how to make savings, but for some organisations this may be manageable without significant upheaval to business plans.

The impact assessment captures the immediate financial impact of the different scenarios but it doesn't acknowledge the impact that will be felt by current and future tenants as a result of reduced investment in their homes and services. This is a crucial consideration for residents, housing associations and the government.

It also doesn't reflect the possible knock-on impacts of government intervention, for example: reduced confidence amongst lenders and ratings agencies leading to higher borrowing costs; lower EUV-SH valuations affecting gearing covenants.

Question 1: What would be the impact of caps set at 3%, 5% and 7% on your organisation's viability and ability to invest in homes and services?

We will be circulating a survey in the next few days to better capture data on the impacts that will be felt by tenants as a result of reduced investment.

Question 2: Are there other knock-on impacts of government intervention that we should capture in our consultation response?

Action without government intervention

The consultation asks what rent increase housing associations would charge next year, if the government didn't intervene.

We think this depends on the 'rules' about how the rent increase would be applied in future years:

- Scenario 1: If rents cannot 'catch back up' with their real terms level in future years, so the impact compounds indefinitely
- Scenario 2: If rents can 'catch back up' over future years, either through a regulatory change or mechanisms within existing rent regulation.

We think that housing associations would be much more likely to limit their increase to well below the permitted CPI +1% under scenario 2. This could potentially include increases below 7%.

We are exploring whether there is a mechanism to allow catch up within existing rent regulation if a cap is applied voluntarily, although we appreciate it could be complex to administer. We are planning to publish a separate note on this.

We are also exploring how a catch up mechanism could be deployed to help mitigate the long-term impact if the government introduces a low cap to the rent increase.

Question 3: what level of rent increase would you apply if government didn't intervene
a) If there was no catch up mechanism
b) If rents could catch back up in future – either via regulatory change, or a 'rent waiver' mechanism within existing regulations.

We appreciate this might be difficult to answer definitively and of course your answer is not a commitment to deliver. We'd appreciate indicative figures.

If the government doesn't intervene, we know that many housing associations would plan to set aside substantial sums for targeted support via hardship funds next year to help tenants struggling with any increase that is applied. In some cases we know this could represent some or all of the additional rental income raised through the rent increase.

We are keen to gather evidence on this so we can convey the extent of the support that could be targeted at tenants if housing associations retain discretion to set their own rents next year.

Question 4: What level of hardship fund would you plan to make available next year
a) If government does not cap rents
b) If government caps at 7%, 5%, or 3%
Please give figures in £, and if possible as a % of next year's total rental income

Exemptions

The consultation doesn't propose any exemptions from the cap but does ask for evidence on whether any exceptions should apply for particular categories of social housing, and specifically references supported housing.

We have strongly argued that supported housing should be exempt from any cap, given the challenges on margins and costs in this part of the sector. A strong evidence base will be important to making the case in our consultation response.

Question 5: Do you agree that supported housing should be exempt from any cap, and if so, can you provide evidence on why this will be important to protect the viability of supporting housing provision?

Question 6: Are there any other categories of social housing that should be exempt from the cap?

Duration of a cap

The proposal is for the cap to apply next year, but the consultation asks for views on whether it should apply for two years, given projections that high inflation will be sustained at least until September 2023 (the reference month for April 2024 rent increases).

A two-year cap would increase certainty for housing associations over rent increases in 2024, but reduces the ability for housing associations and the government to respond nimbly to a highly uncertain and likely rapidly changing situation next year.

A one-year cap potentially leaves a similar period of uncertainty next summer, but would allow for a more nuanced and targeted response to the actual economic conditions faced next year.

Question 7: do you think the cap should apply for one or two years from April 2023? Please explain why.

Design of a cap

The consultation proposes that the cap doesn't apply to new lets, relets. This is very welcome and consistent with the consultation's stated aim of protecting existing residents from high nominal-terms rent increases. If the government had proposed applying the cap to new lets, relets and formula rent it would have meant a permanent and significant real-terms rent cut across all social housing, rather than temporary protection for existing tenants in an exceptional year.

The government's clarification that the CPI+1% cap on rent increases doesn't apply if CPI is below -1% is also very helpful in providing certainty about rental income in the event of deflation.

Mitigating measures

The consultation doesn't ask for suggestions of how to mitigate the impact of any cap on investment capacity, but we plan to make a set of proposals in our response.

These will important in any scenario but particularly important if the government imposes a low cap.

These are twofold:

Grant funding to cover the shortfall in the short term, reinvesting the benefit savings that will accrue from capping rents into grant funding for investment in new and existing social homes. Under a 5% cap, this would represent an additional £4.6bn grant to housing providers over five years, which could be allocated to the Building Safety Fund, Affordable Homes Programme, Social Housing Decarbonisation Fund, or new funding for investment in quality or services to tenants.

A gradual catch-up mechanism in the long-term to return rents to their real terms levels and protect long-term investment capacity, once inflation has fallen back to near target levels and real incomes are rising. This would reintroduce a mechanism similar to the previous convergence mechanism, whereby below-target rents can gradually catch up with formula rent. The government's proposal that any cap next year wouldn't apply to formula rent means that a convergence mechanism would be essential to avoid significant inconsistency in rents between new and existing tenants in future years. This would also address the historic anomaly of below-target rents which never caught up with formula rent before convergence was abolished.

Question 8: do you agree with these two proposed areas of focus? Please share any thoughts on how these proposals could work in detail, and any other proposals we should consider