NORTHERN HOUSING CONSORTIUM
VOICE OF THE NORTH

Social Housing Rents Consultation

Response from the Northern Housing Consortium

About us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of the North' working with councils, housing associations and ALMOs to develop insight, influence and solutions to create better homes and places.

Introduction

The Northern Housing Consortium welcomes the opportunity to respond to the consultation. We understand the great concern about the affordability implications of a possible large rent increase driven by high inflation, so we welcome the action to gather the views of the sector.

Our membership includes councils, housing associations and ALMOs who own or manage more than 9 out of 10 socially rented homes in the North. Our response is informed by discussion with our members on the financial and business impact of each of the options, including the likely consequences for the national social housing decarbonisation programme.

It was very clear from our consultation that member organisations were acutely aware of the impact the current cost of living crisis on their residents, especially those on low incomes and with limited financial resilience. The 2022 edition of the Northern Housing Monitor shows that the average Band D home will pay £680 more for gas going into this winter, compared to an EPC Band C home. One of the identified risks by providers is that the programme of housing decarbonisation, including insulation, could be slowed down in the short term.

All providers operate financial advice and support services and one of the unfortunate consequences of a low rent ceiling could be the curtailing of this type of additional community support which adds so much value to the communities served by local housing providers.

Increasing rents for social housing residents is not an easy decision. Providers were already considering the available options with the need to carefully balance affordable rent levels alongside covering the high inflationary costs to deliver services.

Housing providers are facing inflationary costs with construction costs and materials for maintenance and repair becoming drastically more expensive in the last year. They are also major employers in their local areas and have an appreciation of the financial wellbeing of their employees.

For a variety of reasons including stock variations, essential works such as the need to invest to sustain the decency of existing homes varies across providers and across geographies. There are also wide variations in the extent to which providers need to refinance existing or take on new debt. While we understand the intention behind the rent

proposal, rents and charges are set annually in a process involving an understanding of the financial implications for each organisation and this must be retained.

The NHC's detailed responses to the consultation questions are below:

Question 1: a) Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? b) To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

a) We do not agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling, beyond the existing CPI+1% limit.

Rent is the principal income source for providers, representing 72% of turnover (RSH Global Accounts 2021). It is therefore fundamental to raising the income needed to fulfil longer-term business plan objectives such as growing the supply of new affordable housing, tackling fuel poverty through green home upgrades and providing services to tenants.

If this proposal comes into force, it will mark an abandonment of the long-term rent settlement: the second settlement in a row which has been subject to government intervention mid-term. Assumptions about future rental income streams have been factored into the preparation of long-term business plans which also guided the amount of debt that providers took on. We believe credit markets may take an unfavourable view of such uncertainty, where long-term settlements are repeatedly reneged upon. Boards should be left to decide in the spirit of co-regulation.

There is widespread concern about the rising cost of living – among housing providers, residents, and staff working for housing organisations. But a sector-wide rent ceiling is an untargeted way of tackling this. It is important to recognise that 56% of households living in social housing will not see a cash benefit from any ceiling; as their rent is covered by housing benefit[1] : meaning that the major beneficiary of the savings will be the Department of Work and Pensions. Those residents who do pay their own rent already benefit from lower housing costs than equivalent homes in the private rented sector, and many also benefited previously from a reduction of in rents of 1% each year for four years.

Major costs for housing providers, such as construction costs and repairs and maintenance materials costs are increasing more than headline inflation rates. Homes England, noted in their 2021/22 Annual Report that high inflation in construction costs and labour has created 'a difficult environment in which to complete the build of new homes'.[2]

- Inflation on construction costs overall accelerated to 9.6% in June 2022.
- The cost of new housing has risen even more quickly, with inflation at 12.3% in June 2022.

[1] English Housing Survey Social Rented Sector 2019/20
[2] Homes England Annual Report and Financial Statements 2021/22

- Repair and maintenance prices surged over 2021 and 2022, with annual price increases for repair and maintenance materials peaking in April 2022, at 16.8%. Annual price growth was still highly elevated in July 2022 at 14.0%.[3]

The consultation proposal will remove discretion away from Boards and will introduce uncertainty into business planning, and potentially result in a large reduction in projected resources compared to previous assumptions which were based on the rent settlement.

There are good reasons why the decision to set rent increases should sit with the organisations who are aware of local cost pressures and have carefully structured their financing and business planning.

A blanket approach to the ceiling will impact variously depending upon the size and local circumstances of each provider, and in some cases may impact on viability. At the least, many providers will lose significant capacity to develop additional housing, tackle the cost of living through energy efficiency upgrades; or invest in neighbourhood or community services.

We are disappointed with the plan to make a substantial change to the main income stream, and very concerned about the likely impact on development and retrofit plans and urge the government to rethink these proposals.

b) Registered Providers were actively considering the best options prior to this consultation being published with the need to carefully balance rents for the affordability for residents and to meet increasing business costs.

There is no evidence that we are aware of that any provider was planning to increase rents next year by the full CPI + 1%.

One provider told us about the options they had been considering: "*We would consider a range of alternative options as to how we could implement a lower than CPI +1% level of increase in 2023/24. Our aim would be to implement a solution that would not have an irrecoverable long-term detrimental impact on our capability and capacity to deliver key services and make investment, and for example we would consider deferral of an element of the CPI+1% into subsequent years and would apply that deferred element when CPI was running at a lower level than it is currently*."

Providers are very aware of the impact the current cost of living crisis is having on residents and are concerned about the ability of residents to cover rising costs with recent research showing 68% of social housing residents were worried about being able to meet normal monthly living expenses all or most of the time.[4]

Another large provider told us: *"We do not wish to put our residents under significant financial pressure and we already have a range of approaches in place to support residents financially, including a Hardship Fund and Tenancy Sustainability and Welfare Benefits Teams. We will continue to provide this support for residents."*

[3] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022
[4] CIH Cost of Living Briefing 2022

Recognising the impact of the rising cost of living on tenants' budgets, all providers that we have spoken to are planning rent increases which balance the needs of residents and organisational budgets.

The important point is that individual councils and housing association boards should decide the increase for their organisation and their residents, and many providers told us they were talking to their residents about rent and services and how to reach an outcome that balanced competing pressures effectively - for everyone's benefit.

Boards and councils have clearly indicated that they would have self-regulated and set rents with fairness and affordability in mind, doing what they can to protect people from hardship, targeting help at people facing the most complex and acute challenges. They are aware they must absorb some of the inflationary costs on behalf of their residents. We do not believe that councils and housing associations - landlords with a social purpose at the heart of their operations - would increase by the maximum amount, over 10%, unless there was a compelling need to do so.

Question 2: a) Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? b) Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

a) **No - the 5% ceiling would have a significant impact on the financial capacity of social landlords.**

We do not believe a ceiling is necessary but of the options proposed, the alternative percentage of **7% would have a less significant impact on social landlords' ability to deliver housing growth and services to support residents through the cost-of-living crisis**.

Of the options proposed, a 7% ceiling would see the least impact on current financial commitments, including investing in housing growth and tackling fuel poverty by investing in existing homes. We know that this would be the most challenging for residents, however, the 3% and 5% ceilings will result in cutbacks in services, including a great deal of preventative work that social housing providers engage in and therefore represents a false economy.

A blanket ceiling will require a rent restructuring mechanism in future years, if the sector is to avoid a permanent loss of capacity. The Government should be particularly mindful of the consequence of such a permanent loss of capacity in a counter-cyclical sector which has often been called on to keep the housing market moving in previous downturns.

Examples from our members demonstrate the impact of the options under consideration:

Rent ceiling	Modelled example Northern provider with 40,000 units, (housing and other fixed assets of £1,109m), reserves of £173.9m and an annual turnover of £190m. Operating surplus of £16.3m and an operating margin of 8.5%.

3%	3% ceiling for 2 years would see a reduction in expected rental income compared to CPI + 1% (using 10% as CPI) £14.8m in the first year, £46.9m by the third year and £79.4m by the fifth year. **Equates to 42% of the annual turnover of the organisation.**	Significant impact on building new homes including Shared Ownership and supported schemes, housing retrofit delayed, review of community projects. Would put many providers at risk of breaching loan covenants.
5%	5% ceiling for 2 years would be a reduction of £11.6m in the first year, £29.8m by the third year and £47m by the fifth year. **Equates to 24% of the annual turnover**	Likely to impact on housing providers' ability to invest in new and existing homes as well as providing critical services for residents, and housing retrofit slowed.
7%	7% ceiling for 1 year and a 4% ceiling for the following 2 years would be a £8.5m reduction in the first year, a £23.2m reduction by the third year and a £36.6m reduction by the fifth year. **This represents 5% of annual turnover in year one.**	Least impact on short term financial commitments, including investing in new and existing homes. Medium to longer term commitments would be reviewed.

b) We have been working with members to understand the detail behind this proposal and the impact.

The impact of reduced levels of rental income means that there will be fewer resources available to finance the capital programme including to fund housing growth and tackle the cost of living by investing in retrofit home upgrades. The extent to which they can refinance or take on new debt will be impacted, and other impacts will vary according to local circumstances. Investment in new safety requirements and higher decency standards must continue, and the result of that will be a likely pulling back from investment in development and retrofit home upgrades.

There had already been a substantial negative impact in terms of the loss of income resulting from previous changes to rent policy (the impact of four years of a 1% rent cut). This cut impacted the whole sector, but had particularly consequences local authorities who had engaged in Housing Revenue Account refinancing, taking on redistributed debt on the basis of the rent settlement in place at that time. The current proposal will again reduce the resources and introduce uncertainty.

Impacts fall under three main categories:

1. Viability risks

Registered Providers have told us that the loss of income from a 3% or 5% ceiling would affect their projected cashflow and could push them into breaching loan

covenants. One smaller Northern housing provider stated: "*A 3% ceiling would put us at risk of breaching our loan covenants without finding savings of £6.5m by 2027/28.*"

A 7% ceiling is less likely to breach loan covenants, although it would require a reduction in costs, which many providers have been planning for in order to self-regulate rent increases.

Lenders may become nervous about making long term investments in social housing development with the uncertainty over future rent levels.

If a ceiling rent proceeds, waivers should be granted to providers whose viability problems are explicit and immediate. We would urge that providers in those circumstances should be able to plan their rents on the basis of the current settlement.

2. Investing in Housing Growth and Housing Quality

While decisions have not been made about where efficiencies can be found, all the evidence shows that housing growth is likely to be affected.

Even on the Government's own impact assessment, the preferred option of a 5% cap will remove £1.85bn from the sector in the North (in England £7.4bn less in rental income over the period 2023-28 than would otherwise be the case). That would be the equivalent to the subsidy gap for 83,828 affordable homes (assuming a national mix of products)[5]. This equates to the subsidy for all the affordable housing units provided in the North from 2014/15 to 2020/21 (7 years).

If the entire lost £7.4 billion was distributed as subsidy to regions pro rata to the numbers of developed units this would be the equivalent of 17,600 homes to the North. In other terms, this would be 1.8 years of an entire Northern programme.

This five-year forecast fails to recognise that impacts will be compounded further over the course of landlords' 30 year business plans without a convergence mechanism to recover lost income.

A long-term rent settlement has allowed Registered Providers to plan for housing growth and for the phased upgrade of homes to tackle fuel poverty and meet energy performance targets by 2030, which Government has indicated will be expected to build the supply chain for other tenures to be able to retrofit existing housing.

All providers we have spoken to have told us that their development programme may be at risk, at least in the medium term. Affordable housing completions were already 8,550 homes *below* identified need each year (2015/16 to 2019/20) in the North.

Inflationary prices have impacted on the cost of developing with annual construction price growth accelerating to 9.6% in June 2022. The cost of new housing has risen at an even higher rate and in June 2022 new housing was 12.3% more expensive than a year earlier.[6] With capped rent and with grants at their current levels, it will not be possible to continue to develop at pace if the current economic environment endures.

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[5] ARC4 analysis for NHC, derived from NHF evidence of £12.4 billion gap generating 145,000 homes in https://publications.parliament.uk/pa/cm5801/cmselect/cmcomloc/173/17308.htm

[6] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022

There have already been delays in progressing sites due to Covid restrictions, delays in sourcing labour and material shortages and contractors diverting scarce resources onto private sale units at the expense of the affordable units. The Government's own housing agency has warned that this is 'a difficult environment in which to complete the build of new homes'[7]. Lenders may become nervous about making long term investments in social housing development with the uncertainty over future rent levels.

If this proposal proceeds, we would welcome a review of grant for new affordable housing, increasing levels to ensure new homes can continue to be built. This could be funded by redirecting the savings from reduced DWP housing benefit payments due to the limited rent increases to affordable housing development grant funding.

Providers have told us that even with reduced capacity they will continue to meet safety requirements and to undertake what is necessary to meet repair and maintenance works but their ambitions on energy efficiency upgrades, contributing to tackling fuel poverty and towards achieving net zero, could be significantly slowed.

The cost of energy has highlighted the need to ensure homes are energy efficient. Improving energy efficiency will produce savings for residents on their energy bills and so is cost effective. The social housing sector is leading the way on energy retrofitting with over half of social housing already at EPC C or above. A rent ceiling could have the perverse effect of delaying these works, which will deliver long-term cash savings for residents.

Bringing forward carbon net zero retrofit to those in risk of fuel poverty in social housing is of high importance to the sector but supply chain issues and inflation are starting to impact on the pace of work that landlords can achieve.

The Environmental Audit Committee stated, "they (the social rented sector) have a limited budget and have a limit on the rental income that can be charged. Rental income is usually spent on maintenance, so when it comes to some of the more expensive measures, where there is a longer payback, these authorities have to build a business case to gain access to funding."[8]

Losing control of rent setting in one year over the life of a business plan will have long term implications for programmes such as decarbonisation. One larger Northern provider told us that they predicted a total loss of income of £350m over their 30-year business plan which was equivalent to their entire decarbonisation programme budget.

Housing is responsible for 26% of the North's carbon emissions[9], and poor insulation means that £1 in £4 spent on heating is wasted, while 780,000 children live in homes with dampness.[10] Yet, the costs for providers to do this work are increasing. BEIS has estimated that the average per-property spend to provide limited retrofit to rented housing up to EPC Band C is £4,700. The costs of retrofitting a heat pump with no additional efficiency measures are around £9,000, and whole house retrofit costs range from between from around £16,700 to over £26,000.[11]

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[7] Homes England Annual Report 2021/22.

[8] EAC Energy Efficiency of Existing Homes

[9] BEIS UK local authority carbon dioxide emissions estimates, 2017, Table 1.

[10] New Economics Foundation. (2022). The great homes upgrade

[11] Committee on Climate Change The costs and benefits of tighter standards

It is forecasted that due to demand and exchange rate risks, there will be price increases for air source heat pumps equivalent to around 10% during 2022/23. Similar increases are being experienced for other decarbonisation components. Price growth for electricity, gas, and air conditioning increased from the end of 2020. A first peak was reached in November 2021, at 43.8% annual growth, which was then surpassed by 54.3% in April 2022. In July, prices were 43.8% higher than a year earlier.[12]

BEIS announced bidding for Wave 2 of the Social Housing Decarbonisation Fund (SHDF): an £800m wave of funding which will require at least 50% of total eligible costs to be provided by the housing provider. The Fund proposes to invest £3.8bn over 10 years yet the total cost to decarbonise homes is likely to be between £35bn and 58bn.[13] Each stock holding provider will model an assumption of receiving 10% - 15% in grant funding, but the rest must be found from income. A rent ceiling will make providers less able to take up opportunities which require match funding.

At a roundtable event we held with BEIS last month, many providers spoke of how the pace of progress on energy efficient home upgrades would be impeded, and the target of reaching EPC by 2030 will be delayed.

Table: Summary NHC Roundtable on housing growth and net zero

Rent Ceiling	Impact on provider appetite to participate in SHDF Wave 2
3%	Significant impact on net zero plans. All investment scaled back in short term. Net zero would not be delivered on target.
5%	Scaled back development. Both in terms of funding and implementation. Decisions to prioritise development and retrofit to reduce gap in financial plan. External subsidy required.
7%	Impacts on development and retrofit. Scaled back and no longer fully funded within business plan.

Within the group, half of the participants stated they would consider withdrawing from bidding to SHDF Wave 2.1 at a 3% ceiling, marking a risk to the delivery of that programme.

One housing provider told us *"At 3%, I cannot see how net zero would be delivered."*

All of the participants in our roundtable stated there would be a detrimental impact at a 3% ceiling, at least in the short term, and management of schemes would only be possible with the ability to recover target rents in future years.

Participants stated that a ceiling of 5% would require prioritisation between development and retrofit programmes to reduce the gap in financial plans, thereby risking the successful delivery of the wider decarbonisation programme, which was a 2019 manifesto commitment. As one provider told us, "At 5% ceiling, significant external subsidy will be required to deliver net-zero."

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[12] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022

[13] Decarbonising the Housing Association Sector Savills 2021

Social landlords are very reluctant to cut net zero programmes because they know that they are the only sustainable long-term approach to shielding residents from energy price rises, by reducing the amount of energy used in homes. However, the scale of the impact of a ceiling on business plans will leave many with little choice.

3. Service Provision

Risk to new development is of particular concern, but the impact on community support work, including services for mental and physical health, and housing's role in well-being and preventative work will be at high risk of being withdrawn.

The housing providers we have spoken to have been consulting with tenants to find out which services they most value and need, and this data will be used this to help determine what can be pulled back from if a lower rent ceiling is set.

There is a real risk that what gets reduced will be the wider, holistic work where providers work within communities, identifying and targeting help, supporting those in hardship. This is especially important now in a cost of living crisis with support and advice on financial management and debt advice increasingly needed. Public services are lean on the ground and housing associations meet this need by working in partnership to re-double efforts in local communities.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Only from 2023-24

Rent setting requires careful review with the most up to date information at the time required.

This is a period of significant economic uncertainty and commitments for rent setting should not be made beyond one year.

Inflation was 2.9% in September 2021 but has been forecast to peak at 18.6% early next year according to one analysis from investment bank Citi. Such a high level of inflation combined with a rent cap would have a material impact on business plans.

A rent ceiling of 7% may go some way to mitigate the effect of the current inflation rate but nearer the time of rent setting for 2024/25, the economic position should be reviewed and a decision made as to whether another rent ceiling is required.

A rent ceiling applied just for one year will see reduced income 'baked in' for the future, with properties not achieving target rent.

A mechanism to catch up in future years to achieve target rent, for example CPI +1% + £1 per week on any one rent, would mitigate the significant impact of a rent cap on long-term business plans.

The provision for rent restructuring and an ability to allow convergence towards recouping lost income in future years will mitigate the effect of lost capacity. Therefore annual increases in future years, beyond a rent ceiling year, subject to a maximum annual increase will level out the impact of a ceiling in the next financial year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

We understand the rationale for exempting Social Rent and Affordable Rent properties from the rent increase ceiling when they are first let or subsequently re-let. There are already properties in the sector which do not achieve target rent and when signing for a new tenancy, tenants understand the rent commitment in advance and have the choice not to take the tenancy where it's unaffordable.

This exemption would provide social landlords with greater certainty for these properties and mitigate some of the effects of the rent ceiling on investment.

We would again stress that a 3% or 5% rent ceiling would likely impact development of new homes. Therefore, while it would not apply to new lets, there may be a lower number of new homes coming forward.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes, exceptions should apply to certain types of housing

Specialist Supported Housing - The NHC is seeking an exception for supported housing. We believe this exception is essential.

A rent ceiling to this type of housing will be detrimental to a most vulnerable sector of the population. This includes those with mobility issues, dementia, health deficiencies, those who live on their own, maybe without a family network to support them.

The supported housing sector represents 17% of the total Housing Benefit spend and therefore, affordability for residents is always balanced carefully with sustainability and is a fundamental part of annual rent setting.

The impact to residents relating to rent increases will be quite varied as there is substantial diversity within the supported housing sector but we have been informed that a 3% ceiling would be significantly impactful for the most vulnerable people and in some cases supported housing could become unviable.

Supported housing is already under significant pressure, with narrow operating margins, additional pressures relating to funding from Local Authorities, increasing requirements relating to building safety given the complexity of the stock and extremely high increases in utility costs.

One Northern provider specialising in older persons' accommodation including Sheltered Accommodation for the over 55's (currently 7,000 residents) said: "*Working out the actual cost of inflation rises for such a business for an older community, proves, for us, and the majority of specialist providers, to be between 7% and 9%. This level of rent, whilst still impacting the business, would enable basic services to be provided, but reflecting the current position facing tenants in terms of the cost of living. Anything lower than 7% leads to significant pressures.*"

Applying a blanket approach loses the consideration of consequences for future supply of supported housing. Whilst we welcomed the specific inclusion in the 2021-26 Affordable Homes Programme of providing supported housing, realistically, the ability to develop further supply is becoming unviable, even more so when taking into account the inflationary costs in construction. Further financial pressures are likely to reduce the ability to develop further.

For these reasons, we consider that there is rationale to consider supported housing being excluded.

Shared ownership – shared owners are not covered by the rent standard and therefore a ceiling won't apply to them. Social landlords we have spoken to were very concerned about this group who are by their nature marginal homeowners and face potential exposure to the costs of rising interest rates. Landlords were in discussions about limiting rent and service charge rises where possible, but their ability to do so will be eroded if a rent ceiling on social housing is implemented.

In addition to the impact of rent increases combined with interest rate rises making this group financially vulnerable (more so than owner occupiers as they are also liable for service charges), this model of development could face suppressed demand and leave providers with unsold stock thereby shared ownership development could become a less attractive option for providers to develop. Clearly changes which have consequences for delivery of shared ownership and other low-cost home ownership products have a knock-on impact on the Government's mission to boost home ownership across the country.

Rents and Service charges – we propose an exemption of service charges in any rent cap arrangement, particularly in relation to properties let at Affordable Rents to ensure service charges are outside of the cap and can reflect inflationary costs.

One provider told us "*This is a "double whammy" for us given we provide shared accommodation with communal internal and external spaces, because the cap on affordable rent is highly likely to mean our service charge costs are not covered by the reduced rent.*"

A key benefit of variable service charges is that it encourages affordability and lower costs as it is based on a recharge basis and not a fixed charge and in most cases actively involves the residents in determining the nature and volume of services they require to be provided.

For further information about this response, please contact

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