Northern Housing Consortium response to Government consultation on future rent policy - December 2024

The Northern Housing Consortium is a not-for-profit membership organisation whose members include housing associations, local authorities, ALMOs and combined authorities across the North. Our members own and manage nine out of ten social homes across the North of England.

As part of the Northern Housing Consortium's (NHC) response to this consultation, the NHC, Chartered Institute for Housing (CIH), National Housing Federation (NHF), Local Government Association (LGA), Association of Retained Council Housing (ARCH), the National Federation of ALMOs (NFA) and the Councils with ALMOs Group commissioned analysis by Savills Affordable Housing. This analysis, as well as a joint letter laying out our collective position, has been shared with the Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government, as well as officials in the Ministry of Housing, Communities and Local Government (MHCLG) and will be referenced below.

Summary of our response:

- The proposed rent policy of CPI +1% for five years would go some way to improve the finances of the housing sector and maintain current levels of delivery. If, however, government wants the housing sector to go further on delivering new homes, improving housing quality and energy efficiency, then this will be insufficient.
- The **government should extend the proposed rent settlement of CPI+1% for 5 years to 10 years**. This will increase the capacity for investment in new and existing homes by reducing the cost of debt faced by affordable housing providers, allow them to plan investment and development programmes with greater confidence, and provide the affordable housing providers in the North with an additional £18.68 billion of income to invest in homes over their 30 year business plan period.
- The **government should also, as part of the next rent settlement, reintroduce rent convergence** at either £2 or £3 per week. This will provide additional income for providers, especially local authorities, to invest in homes and ensure that affordable homes are let at the correct rent levels. This will also put the housing sector's finances on a more sustainable footing in the longer term, significantly improving the position of Housing Revenue Accounts and housing association interest cover.
- With these changes, social housing rents in the North would remain affordable for tenants, while the housing sector would be in a significantly stronger position to meet the multiple challenges it faces, and to support the government's ambition to build 1.5 million new homes across this parliament.

1. **<u>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?</u>**

Yes.

Government should set a rent policy that remains in place for at least the next 5 years. As our response to question 2 makes clear, however, we believe that any such rent settlement should be extended to 10 years.

2. **<u>What impact would a longer settlement have, and what alternative length should a settlement be? E.g. 7 years / 10 years</u>**

The proposed rent settlement should be extended to ten years. A longer rent settlement will enable the affordable housing sector to deliver more new homes and greater levels of investment in the existing stock than any shorter policy.

This is primarily due to the longer-term certainty of rental income reducing borrowing costs, enabling providers to plan more ambitious development programmes for longer, and providing housing providers with greater overall resources to invest in new and existing homes.

We believe that a rent policy of CPI +1% for 5 years would go some way to stabilise the social housing sector's finances and maintain current levels of delivery without finances deteriorating significantly further. A 5-year settlement will not, however, be enough for the sector to go beyond this. Further, a ten-year rent policy delivers significant improvements for the sector's overall finances, leaving Housing Revenue Accounts (HRAs) and housing association interest cover in more robust and resilient positions than under a five-year policy.

It is also important to highlight that many of our members report that much of the increased financial headroom provided by the proposed rent policy has been eroded due to the increases in employer National Insurance contributions announced at the Budget in October. This is especially the case in the early years of the policy and for housing providers operating supported housing or extra-care provision. Analysis by Savills suggests that these changes will cost local authorities £50-60 million per year, while the cost to housing associations will be over £100 million per year.

For the housing sector to play a substantial role in meeting the government's target of building 1.5 million new homes over this parliament, delivering a new, strengthened Decent Homes Standard, or making greater progress on improving the energy efficiency of our housing stock, the rent policy will need to provide housing providers with additional financial headroom and investment capacity through a longer rent settlement, the reintroduction of rent convergence or additional grant funding.

Impact on housing provider debt costs

A crucial benefit of providing longer term certainty over rental income levels is that it will increase institutional investor confidence and make the housing sector a more attractive prospect for private finance. This will be demonstrated by reduced interest rates on the housing provider debt issued to finance new affordable homes, thus increasing the number of homes that can be delivered.

Analysis by Savills, drawing on insight from investors, fund managers and For-Profit Registered Providers, has shown that under a ten-year rent settlement of CPI+1%, the required yield on housing sector debt would be 0.45% lower than under CPI only. This benefit would only be 0.24% under a policy of CPI+1% for five years. Associated modelling of these benefits shows that the capacity to deliver new affordable homes through debt-financing, compared to a policy of CPI only, would be 88% higher under a ten-year CPI+1% policy, or 40% higher if the CPI+1% policy was for just 5 years.

From the perspective of government and HM Treasury then, extending the proposed rent policy to ten years will help get more homes delivered with no increase in up-front grant funding.

Impact on development programmes

The extension of rent policy to a period of ten years will also help the affordable housing sector expand development programmes in the future and make a greater contribution to meeting the government's target of building 1.5 million new homes.

This is largely because affordable housing development pipelines are often planned over periods of three or more years. In addition, many of our developing members work on the assumption that the time taken to complete the development of a new home from signing a grant agreement with Homes England., is roughly two years, meaning that towards the end of a rent policy period, if there is no confirmation about future rent levels, providers are planning developments where there is uncertainty as to what their rental income will be by the completion of the development. Under such a situation, it is likely that our members would begin planning based on a future rent policy of CPI alone and pull back on their development programmes.

Extending the rent policy to ten years would allow providers to plan development programmes with even more confidence, and as has been mentioned already, the additional confidence provided to investors would mean that the overall capacity for providers to take on debt to build new homes would be higher.

A ten-year policy would also ensure that provider development programmes would be based on CPI+1% for the entirety of this parliament. Providers could therefore increase development capacity throughout the parliament without any concerns that rent policy may force them to pull back in later years. Due to the substantial falls in affordable housing starts that we have seen over recent years, meeting the government's goal of 1.5 million homes will require a consistent ramping up of new homes each year, with the final years of this parliament needing to substantially 'overshoot' their proportionate share of 1.5 million. Therefore, by making rent policy certain for ten years, the risk that providers will pull back

development towards the end of this parliament will be reduced, making it more likely that the government's goal of 1.5 million homes across this parliament is met.

In addition, a longer rent policy will mean that providers will be able to plan developments with the certainty that these new homes will generate the higher levels of income associated with a CPI+1% rent policy. This will positively impact the viability of such developments compared to if they had to be planned on the assumption that the rent policy would be CPI alone. This will ensure that schemes that are marginal on financial viability can progress and help deliver more new homes across the country.

Increasing provider investment capacity

Analysis from Savills, carried out for this consultation, makes clear the benefits for housing provider balance sheets, and therefore their ability to invest in new and existing homes, that a rent policy of CPI+1% for 10 years provides.

Firstly, a 10-year rent policy of CPI+1% provides housing providers with substantially higher rental income than potential alternatives, which can subsequently be used to invest in new and existing homes and leverage in greater levels of private finance. By 2035/36, the cumulative increase in rental income for housing associations will be £7.4 billion higher than under rent increases in line with CPI. For local authority landlords, this figure will be £5.6 billion.

Applied to the North of England's share of England's housing association and local authority housing stock, and adjusted for relevant rent levels, this means that a ten year rent policy of CPI +1% would leave affordable housing providers in the North with an additional £3.4 billion (£2.2 billion for housing associations and £1.2 billion for local authorities) of rental income that could be used to invest in new and existing homes.

As is always the case with changes to rent policy, impacts are not limited to the years where the policy applies and instead compound over the 30-year period over which all affordable housing providers plan their investments. Across England, a ten-year rent policy of CPI+1% will increase income over the 30-year business plan period by £72 billion, with housing associations and local authorities seeing benefits of £41 billion and £31 billion respectively. These benefits would be significantly smaller under a policy of CPI+1% for only 5 years, with additional income over the business plan period reduced from £72 billion to £37 billion.

Again, applying these figures to the North shows that the ten-year policy of CPI+1% would leave affordable housing providers in the North with additional income of £18.68 billion over the business plan period – housing associations and local authorities in the North would see £12.03 billion and £6.6 billion of this benefit respectively. Under a five-year policy, this total benefit would be reduced to £9.6 billion (£6.18 billion for housing associations and £3.39 billion for local authorities).

Impact of a rent policy of CPI+1% over CPI-alone for housing association and local authority landlords in the North and England and business plan impact of a ten rather than five-year policy

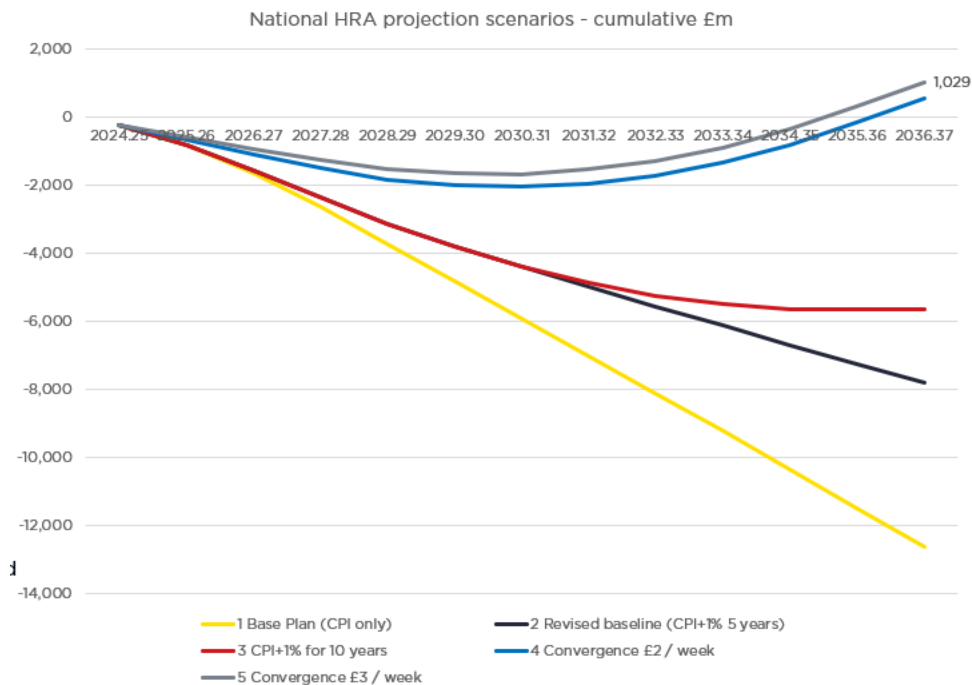
	In year income change (2035/36)	Cumulative income change (2025/26-2035/36)	Income change over business plan period (ten year policy)	Income change over business plan period (five year policy)
Housing associations (North)	+£424 million	+£2.2 billion	+£12.03 billion	+£6.18 billion
Local authorities (North)	+£213 million	+£1.2 billion	+£6.6 billion	+£3.39 billion
Housing associations (England)	+£1.45 billion	+£7.4 billion	+£41 billion	+£21.7 billion
Local authorities (England)	+£1.10 billion	+£5.6 billion	+£31 billion	+£15.93 billion

Ensuring the sustainability of the housing sector's finances

The rent policy proposals also have significant implications for the long-term financial sustainability of the housing sector's finances. The "serious financial pressure" the sector is facing was recently highlighted following an inquiry by the then Levelling Up, Housing and Communities Committee and the Regulator of Social Housing (RSH) has highlighted that the housing sector's debt servicing costs currently exceed net earnings for the first time since 2009. [1], [2] In such a situation, government should look to ensure that rent policy – housing providers' main source of income – can help to support more resilient finances that provide greater cover and are in a better position to absorb any potential future shocks. This can be achieved by extending the proposed rent settlement to ten years.

Analysis by Savills, carried out for this consultation, estimates that a rent policy of CPI +1% for five years will see the financial situation facing local authority Housing Revenue Accounts (HRA) worsen over the rent policy period and beyond. A rent policy of CPI+1% for ten years, however, sees the cumulative balance of HRAs enter annual surplus from 2034/35 and cumulative deficits remain under £6 billion. On the other hand, policies of CPI+1% for only five years and CPI only see cumulative deficits rise to just below £8 billion and more than £12 billion by 2036/37 respectively. The chart below shows projected HRA trajectories under different rent policies.

Housing Revenue Account trajectories to 2036/37 under different rent policies



For housing associations, a rent policy of CPI +1% for ten years sees housing association's interest cover projected to increase to 137% by 2036/37. This is compared to just 114% under a five-year policy, only marginally improving cover above the level that the Regulator of Social Housing (RSH) forecasts it to be for the next five years (111%).[3] A rent policy of CPI only is significantly worse, with housing association debt interest cover falling below 90% from 2032 and staying below this level for the medium term.

To ensure that housing provider finances are more robust, however, the government should also consider the reintroduction of rent convergence. This will be discussed further in our response to question 7.

3. **Would a rolling settlement of 5 years (where the sixth year is set 5 years in advance) provide additional stability or certainty?**

Yes, although our preferred option would remain a ten-year rent policy as the impact of a rolling programme in terms of lower borrowing costs would be significantly less than under a ten-year programme.

Impact on debt costs

As well as increasing confidence and investor appetite for lending to affordable housing providers, extending rent policy certainty to ten years is likely to reduce the cost of debt

facing housing providers too. These benefits would be greater under a ten rather than five-year policy and a rolling five-year arrangement would not change this.

Reducing debt costs would increase provider capacity to take on additional debt, allowing them to deliver more new homes. Following engagement with investors, fund managers and For-Profit providers operating in this space, analysis by Savills shows that a rent policy of CPI+1% for ten years would reduce the yield required on housing provider debt by 0.45% compared to a baseline policy of CPI only. This compares to only a 0.24% reduction under a policy of CPI +1% for five years.

As previously mentioned, it is estimated that providing a ten-year rent policy of CPI+1% would increase the capacity for new affordable homes delivered by debt-financing by 88% against a policy of CPI only, and by 48% more than under a policy of CPI+1% for five years.

These benefits are only captured through a ten-year rent settlement, rather than a rolling five-year settlement, as the investor yield requirement is determined on the basis of the position each year – I.e. there will never be more than five years of certainty under a rolling arrangement and therefore no ability to reduce that yield further than it would be under a single five-year programme.

This then, is perhaps the clearest example of how providing longer term certainty on rent policy would produce tangible benefits for housing providers, HM Treasury and future tenants of any new homes built using additional capacity provided by lower debt costs.

Impact on investment and development programmes

A rolling five-year rent policy would provide greater levels of certainty and positively impact housing provider investment and development programmes, beyond that of a standalone five-year policy, but our preferred option would still be a ten-year policy.

The most recent rent policy decision was a one-year extension of existing policy into 2025/26. This was announced in April 2024, leaving providers with approximately a year of notice. This is unhelpful for housing providers who, as repeatedly mentioned, look to plan out their property investment programmes over a 30-year business plan period, with future rent levels being a major influencing factor when deciding how to plan out any such investments. Ensuring that providers always had five years of visibility of future levels of rent income would be an improvement on the approach seen recently.

This benefit would especially be the case for the development of new homes, due to the extended rent policy certainty allowing providers to ramp up development over a greater number of years with confidence. This has been covered in greater detail in our response in question 2.

While a rolling arrangement would be an improvement on standalone five-year policies, the benefits of a ten-year policy on investment capacity, debt costs and the ability to plan development pipelines with greater confidence mean that the housing sector would be better positioned to deliver under a ten-year rent policy of CPI+1%.

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

We believe that a rent settlement of CPI+1% for ten years, rather than five, would increase the ability of providers to invest in new and existing homes, by providing greater certainty as to future income, ensuring providers have greater overall resources and by reducing the cost of debt that they would face.

Please see our responses to questions 2, 3 and 7 for more detailed explanations as to why this is the case.

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

Government should look to avoid diverging from established rent policy wherever possible. The major reason for this is because any reductions in rental income in one year compound over a business plan period, significantly reducing a providers' future capacity for investment. Previous moves away from established rent policies have been hugely distortionary and reduced the ability of providers to invest in new and existing homes in subsequent years.

In situations where an inflationary shock risks households facing substantial annual rent rises, government should look to shield households in social housing from such increases by distributing additional funds through the welfare system. This would avoid the distortionary impacts of amending a rent policy that housing provider business plans are based on and allow them to deliver more affordable housing and to improve existing homes. To ensure that such an approach works, the government's proposed 'fundamental reform' of the welfare system must include an assessment of how the existing benefit cap would need to be amended to provide flexibility to changing financial situations.

If government does decide to diverge from rent policy during an inflationary spike, then any limit on rent rises within a specific year should be accompanied by a 'catch up' mechanism where rents can return to the levels they would otherwise have been over a number of years, after the shock has passed. If government were to take such an action, this should be communicated at the beginning of the rent policy period, along with the criteria upon which it would be introduced e.g. CPI inflation above 7%. This would then provide greater clarity for housing providers and make it easier for them to plan around any potential divergence from the established rent policy.

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

The housing sector has previously been promised certainty on rental income, similar to what is being proposed in this consultation. In 2013, the previous government promised a ten-year rent policy of CPI+1%. This was, unfortunately, not adhered to, with half of the subsequent years being 'off policy' due to a four-year rent cut from 2016 and a rent cap in 2022/23. Each

of these departures from rent policy are highly distortionary for housing provider business plans, with reductions in rental income compounding over the business plan period and heavily reducing overall investment capacity. For example, it is estimated that the 2016-2020 rent cut will have reduced the incomes of local authority landlords alone by £40 billion by 2042. [4]

Rent policy is therefore one of the single most important elements of housing provider business plans, and as a result, it cannot be overstated how important stability is, and that the government adheres to its own policy as much as possible.

To increase confidence in the policy, government could put any long-term rent settlement into statute. This would ensure that any move away from established policy would require approval via a vote in Parliament. This would mark a significant step beyond what the previous government had provided – whose policy was based entirely on trust – and help the housing sector to believe that the policy would not be departed from other than in the most severe situations. The need for a vote to approve any departure from established rent policy would also provide a valuable opportunity for scrutiny and debate from MPs and peers, over the questions and trade-offs related to social housing rent policy, affordability, and stock investment requirements, rather than relying on unilateral executive action, as is currently the case.

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

Yes.

A long-term rent policy of CPI +1% for ten years will provide confidence and certainty that will allow affordable housing providers to plan their future investments, as well as leaving housing providers with additional capacity to invest in new and existing homes, as shown in our response to question 2.

This should, however, be considered the minimum of the next rent policy, if the government wants to see the housing sector play a larger role in delivering its goals on building 1.5 million new homes, improving housing quality and accelerating domestic decarbonisation. In addition to CPI+1%, government should reintroduce rent convergence, at either £2 or £3 per week, for social homes that never reached their target formula rent level.

The case for convergence

Analysis by Savills, carried out for the purposes of this consultation, has modelled the potential impacts of rent policies that allowed “CPI+1% +£2 per week” and “CPI+1% + £3 per week”, until the homes in question had reached their target formula rent level. This analysis shows that the reintroduction of rent convergence would significantly bolster the balance sheets of affordable housing providers and increase their ability to invest in new and existing homes.

The estimated impact of reintroducing rent convergence is disproportionately felt by local authority landlords, who, across England, would see an in-year increase in rental income of

£674 million in 2035/36, and a cumulative benefit over ten years of £5.51 billion under a rent policy of CPI+1% + £2 per week convergence. These figures are only slightly higher for a rent convergence policy which allowed +£3 per week but rent convergence would be reached earlier.

For the housing association sector, these figures are a £379 million increase in rental income in 2035/36 and a cumulative increase in income of £2.95 billion over ten years.

In the North, any financial benefits from reintroducing rent convergence are likely to be felt primarily by local authorities too, as their rents are currently further from target formula rent levels than housing associations. In 2023/24, local authority rents in the North were 4.67% below target levels, compared to 1.77% for housing association rents. Both the situation facing Northern housing providers with regard to convergence, and the estimated financial impact of reintroducing rent convergence for providers across England, are shown in the tables below.

Rent convergence in the North

	Housing associations	Local authorities
Current actual rents (23/24)	£93.68	£84.29
Formula rent (23/24)	£95.37	£88.42
Differential	£1.67 (1.77%)	£4.13 (4.67%)
Expected convergence year under £2 per week	2029/30	2028/29
Expected convergence year under £3 per week	2027/28	2026/27

Estimated financial impact of convergence in England for housing associations and local authorities

	Housing associations	Local authorities
In year impact by 2035/36 from £2 per week convergence	+£379m	+£674 million
In year impact by 2035/36 from £3 per week convergence	+£392m	+£685 million
Cumulative increase in income over 10 years from £2 per week convergence	+£2.95 billion	+£5.51 billion
Cumulative increase in income over 10 years from £3 per week convergence	+£3.28 billion	+£5.97 billion

Impact of convergence on sector finances and investment capacity

For both housing associations and local authority landlords, convergence as well as a ten-year rent policy of CPI+1% leaves provider finances in a much healthier condition. For local authorities, it is only by including rent convergence, of either £2 or £3 a week, where HRAs enter a cumulative surplus over the next ten years – achieving this by 2034 (this is shown in the chart accompanying our answer to question 2). For housing associations, a rent policy of CPI+1% + £3 per week improves debt interest cover to 157% by 2036/37, compared to just 114% under CPI+1% for five years with no convergence, or below 90% for a rent policy of CPI alone.

Analysis by Savills for this consultation shows that the additional income from convergence would translate to between £10-12 billion of additional borrowing capacity for affordable housing providers. Assuming a 50% grant rate and £250,000 delivery cost, this would see an additional 30,000 to 80,000 more social rent homes delivered by local authorities, depending on the proportion of additional investment capacity that was directed towards investment in existing stock.

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?**

Decisions over increasing affordable housing rents will always require difficult trade-offs between balancing affordability for tenants and ensuring that rental income can support the levels of investment required in existing homes as well as developing new homes to meet local housing need.

Analysis by Savills has modelled the affordability impact of a ten-year CPI+1% rent policy on housing association social rents by comparing them to the projected growth in private rents over the same period.[5] This analysis shows that social rents stay well below market rents in the vast majority of the country, as they are designed to do. In the North, social rents stay below or around 50-60% of market rents in all major cities, where affordability pressures in the private rented sector are most acute. This suggests that extending the proposed rent policy to ten years would not cause any fundamental negative change in the affordability of social rents.

In addition to concerns around general affordability, government may also be concerned that the introduction of rent convergence, or the emergence of another inflationary spike, would result in existing tenants seeing significant annual rent rises. Our response to question 5 has laid out our thoughts on how an inflationary spike could be managed.

On rent convergence it should be stressed that the reintroduction of convergence and additional rent increases beyond “CPI+1%” would merely ensure that properties that have never reached their formula rent level can do so. Once this point has been reached, the property’s rent level would have reached a level that the government has already acknowledged is the correct level for a property of its type, and a level acknowledged as affordable. From this point, any additional rent increases would stop and rent levels would be managed in line with wider rent policy.

It is also important to remember that a large proportion of social housing rents (65%) are paid through the welfare system, with approximately 55% of tenants having their rent fully covered. Therefore, the most pressing concern with regard to household affordability should be the tenants who pay rent without this assistance. Additional analysis by Savills has modelled the potential affordability impact of rent convergence on tenants who pay rent in full. By 2030 the pressure on these households from rent increases beyond the projected rate of wage growth amounts to £2 per week. Critically, the affordability impact of rent convergence on such households is significantly influenced by the rate of wage growth over the convergence period. This adds greater importance to the government's recently announced target in the *Plan for Change*, to increase household disposable income over the parliament.

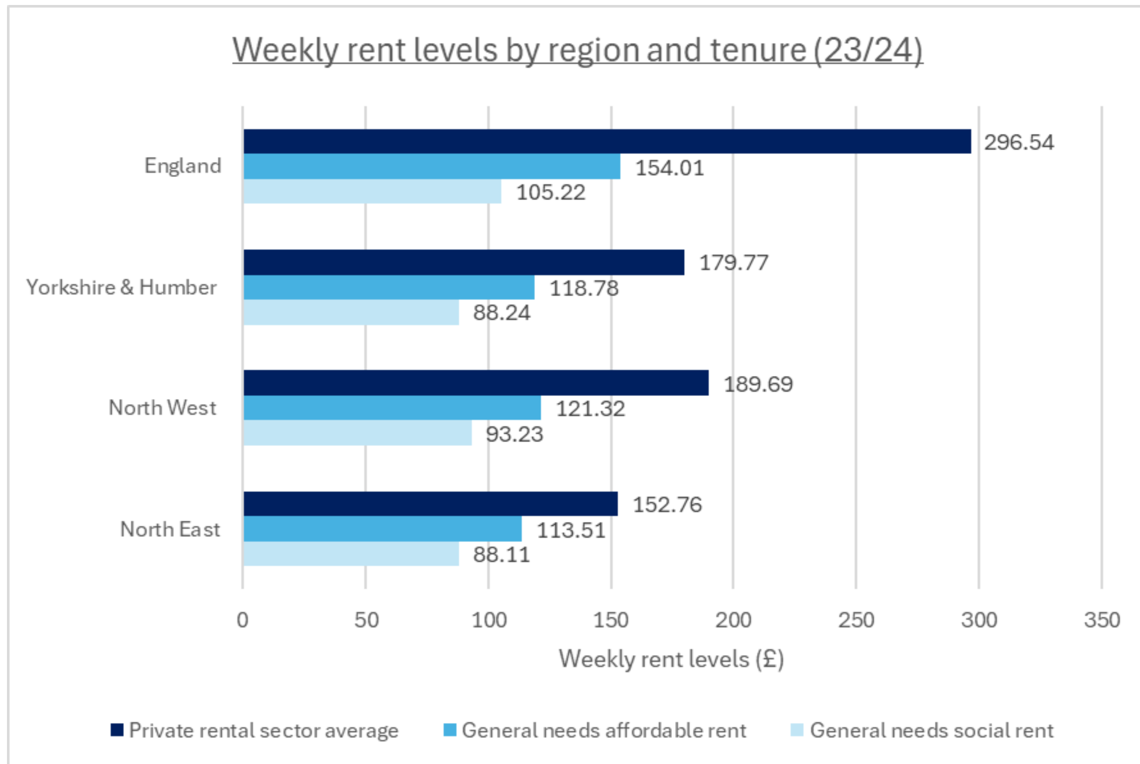
Furthermore, the North's social housing sector has a higher level of 'churn' than elsewhere in the country, with tenancy turnover rates higher than the national average (regional levels of social housing churn can be seen in the below table). The impact of this will be that, in the North, a greater proportion of total rent convergence will be achieved by homes becoming vacant and being subsequently re-let at formula rent levels, rather than through gradual rent increases for sitting tenants. This will reduce the overall affordability impact of any rent convergence policy in the North.

Levels of social housing tenancy turnover by English region

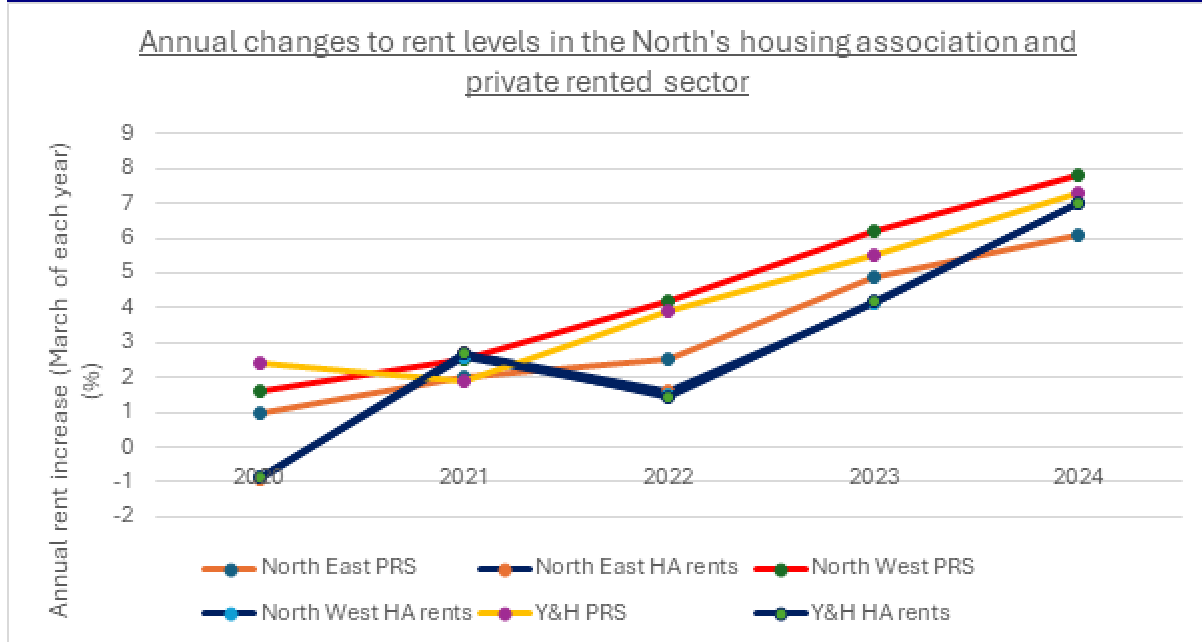
Region	**Proportion of social stock re-let (23/24)**
North East	6.7%
North West	5.5%
Yorkshire & Humber	5.9%
East Midlands	5.4%
West Midlands	5.2%
East of England	5.1%
London	2.5%
South East	4.7%
South West	5.1%
England	4.8%

Furthermore, all affordability concerns must be considered in the context that the social rented sector in the North already provides rents substantially lower than the equivalent homes in private rented sector (PRS), and lower than the equivalent social homes across the country. The average general needs weekly social rent levels in the North East, North West and Yorkshire & Humber (2023/24) are £88.11, £93.23, and £88.24 respectively.[6] This

compares to £152.76, £189.69, and £179.77 in the PRS. Social, affordable and private rent levels for each of the three Northern regions and England are shown in the chart below.



In addition, recent rent increases in the North's PRS have also generally been higher than in the social housing sector. In the North West and Yorkshire & Humber, annual rent changes have been higher in the PRS than the social sector in four of the last five years. In the North East, where affordable housing rents are already the lowest in the country, this has been the case in three of the past five years. This is the case in percentage terms and therefore in cash terms also. This demonstrates that not only are affordable housing rents substantially lower than their equivalent in the private rented sector, but that there is an increasing affordability gap between the private and affordable housing tenures. The chart below shows the annual rate of change for private and affordable housing rents in each of the three regions across the North.[7]



Unfortunately, while this is the case, many households currently have no option but to rent in the private rented sector due to the shortage of social housing across the North. There are currently almost 450,000 households on local authority housing waiting lists in the North East, North West and Yorkshire & Humber combined.[8]

The Northern Housing Monitor's recent keynote chapter identified the urgent issue of 23% of the population of the North, including 32% of children, being pushed into poverty after housing costs, in large part due to high private rents.[9] In addition, our work found that 25% of people in the lowest income quintile in the North are living in the PRS, compared to just 17.9% across the rest of England. This means that hundreds of thousands of low-income households in the North are living in the lower end of the PRS, with higher rents, lower rates of compliance with the Decent Homes Standard and less security of tenure.

Many of these households would benefit immeasurably from the higher levels of housing quality, lower rents and security that an affordable housing tenancy can provide, but the social housing sector can only maintain these benefits, and deliver more new homes for more households, if it has the investment capacity and levels of rental income required. The government's decision on future rent policy is an important opportunity to ensure that is the case.

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

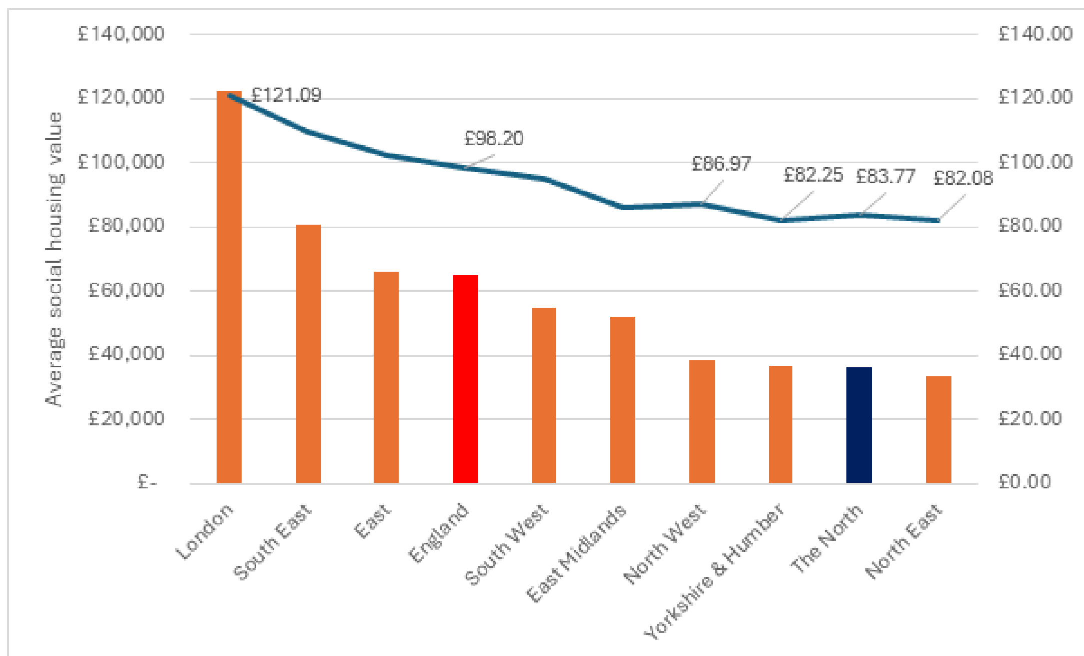
Grant funding for regeneration and existing stock

The Northern Housing Consortium and our members support the government's ambition to build 1.5 million new homes. The affordable housing sector in the North wants to play a significant contribution to delivering this goal and providing more affordable homes for those who need them. It is important to stress, however, that the sector is facing numerous demands on its resources, including the need to invest in the existing housing stock to meet emerging regulatory requirements, and a portion of the housing stock and communities that are in need of regeneration.

The affordable housing sector is highly regulated, with the focus of regulation being on the quality of existing housing stock, the level of service provided to current tenants as well as the financial viability and governance arrangements of organisations. There is no regulatory requirement to build new homes. Funds for development essentially come from what remains after investment in compliance has been accounted for. When faced with multiple demands and insufficient financial capacity to address them all, housing providers will prioritise spend on what they are regulated against and will pull back on new development. Our members report that this is the decision that they are having to take currently. This is reflected in recent data on affordable housing starts where, across England, starts decreased by almost 40% in 2023/24.[10]

Furthermore, there are emerging issues in the North of England relating to 'end of life' housing stock and the need to regenerate existing homes and communities. These are areas and homes that for various reasons, including concerns regarding the ability to maintain compliance in the future and the financial viability of required investment, are in need of a significant intervention such as physical regeneration. These issues are likely to be more acute in the North where rent levels and property values are generally lower than in the rest of the country. The chart below shows the average value of a social home in each region, along with average regional rent levels.

Social housing property values and rent levels by region



As well as focusing on compliance with regulatory standards, social housing providers and their boards or cabinets will not leave the issues with their existing homes and communities unremedied so they can develop more new homes elsewhere. If these issues can be fixed, with support from grant funding and a rent policy that provides additional investment capacity, providers will be able to give greater focus and resources to the development of new homes. For this reason, funding and policy for the existing housing stock and new development should not be viewed in isolation from one another. By providing funding to support existing stock investment and regeneration of areas that need it, government will enable housing providers to deliver against both priorities and play a larger role in delivering the government's 1.5 million home target.

This aligns with analysis carried out by Savills which found that if debt guarantees and £2 billion per year of additional grant funding for investment into existing stock were provided by government, this would open up additional investment capacity within housing association business plans to spend on development while maintaining resilient sector finances. This analysis estimated that debt interest cover would increase to above 150%, issues around existing stock would be eased, and the affordable housing sector would be able to deliver an additional 650,000 new homes over ten years.

The Northern Housing Consortium will be presenting separate research and submissions on the need for funding for regeneration and existing stock improvements to MHCLG in the run up to the Spending Review.

Affordable Homes Programme grant

Rent policy is undoubtedly one of the most important elements of a housing provider business plan and significantly influences the levels of development that a provider can sustainably deliver. It is not, however, the only important policy that providers will need to consider.

Our members also eagerly await a new Affordable Homes Programme (AHP) following the end of the 2021-2026 programme. We hope that this will be announced at the Spending Review and look forward to engaging with officials in MHCLG on the finer details of the policy parameters.

We strongly support the government's ambition to build more social rent properties over this parliament, but it is critical to highlight that changes to rent policy will not be sufficient to significantly change the levels of social rent homes being built. This will only be achieved through a new AHP that includes grant rates that make social rent viable for our members. This will especially be the case in the North of England, where the ability to improve the viability of social rent development via cross-subsidy from market sale or from land-value capture is lower.

Our members also include Combined Authorities across the North who will be increasingly influential in the delivery of the next AHP. This is something that we strongly support and hope the government continues with, as this is the best way to ensure that housing funding can meet the different requirements of the diverse housing markets across the North.

Specialised supported housing

Specialised supported housing (SSH) is purpose-built housing for tenants with care and/or support needs equivalent to people living in residential care. Such accommodation is currently exempt from the Regulator of Social Housing's Rent Standard and therefore cannot access public subsidy to support the development of new homes. This limits the number of new homes of this kind that can be delivered, while there is a serious need to increase supply of such accommodation with demand outstripping supply and the government's aim to increase the proportion of care, treatment and support received in neighbourhoods rather than hospitals. To alleviate these issues, government should amend the Rent Standard to remove this exemption and permit public subsidy to be used to deliver new specialised supported housing for those that need it.

National Insurance employer contributions

One additional area of concern for our members is that a large proportion of any benefit brought by the introduction of a five-year rent policy of CPI+1%, especially in the early years of such a settlement, have been reduced by the increases in employer National Insurance contributions. Analysis by Savills suggests that these costs will be approximately £50-60 million per year for local authorities and over £100 million per year for housing associations. Providers of supported housing and extra-care provision will be especially hard hit by these

changes. This will make it harder to expand investment or development programmes in the early years of this parliament.

Housing Revenue Account sustainability

As has been highlighted in our responses to question 2 and 7, the only rent policy that sees local authority HRAs enter cumulative surplus is a ten-year rent policy of CPI+1% accompanied with rent convergence. If government does not wish to reintroduce convergence, this will leave the HRAs with a cumulative debt of between c.£5 billion and £12 billion by 2036/37, depending on the selected rent policy. To ensure that debt levels within HRAs do not become unsustainable then, government may need to consider updating the 2012 debt settlement, as the CIH made the case for earlier this summer, or providing a cash injection to ensure the sustainability of HRAs.[11]

10. **Do you have any comments on the detail of the draft direction and policy statement that are not covered by your responses to the previous questions?**

No.