LGA Response to MHCLG consultation on Rents for social housing from 2020-21

November 2018

Local Government Association

Submission

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation which works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems.

We welcome the opportunity to respond to this consultation.

Key messages

- We welcome the return to a policy of managed rent increases following the social rent reduction from 2020-25. However long-term income certainty is crucial, and a commitment to 30 year rent increases of CPI+1% from 2020 would be extremely valuable in supporting councils to make full use of potential released through the lifting of the cap on borrowing through the Housing Revenue Account.

- We believe it is important to retain an element of local flexibility within a stable long-term national framework of rent increases. We acknowledge why the Government has proposed this model of rent regulation for council rents, however this move reflects a shift away from localism, removing the flexibility for independent council landlords to set rents as was agreed at self-financing. We would support further investigation of other options for applying more proportionate controls to Housing Benefit spending via social rents within Universal Credit, for instance the continuation of a limit rent model.

- Local flexibility is important because the proposal to regulate local authority rents by a maximum increase of CPI+1% will limit the build ambitions in many areas. This especially true for those councils with plans to move towards formula rent after the period of rent reductions has ended in 2020. If the Government goes ahead with this proposal it might consider exemptions for councils to gradually phase up their rents towards the formula rent level, from which point regulation would apply.

- Furthermore our Setting Social Rents report with Capital Economics demonstrated that, while a CPI+1% rent increase is broadly right, a greater level of local discretion on rent setting could generate increased rental returns to invest in new and existing housing stock which would generate welfare savings overall.

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Consultation questions

1. Do you agree that the rent standard should apply to local authority registered providers from 2020?

The Government is seeking a new mechanism to control local housing authority rents as a result of the transition from Housing Benefit to Universal Credit. Universal Credit consists of one payment (usually made directly to the individual), and as a result DWP cannot control the amount paid for housing costs. It is proposed instead that welfare spending on housing costs will be protected by applying a maximum rent increase to local authorities.

We recognise the need for Government's need to control welfare spending. However the sector overwhelmingly seeks to manage a proportionate rent policy that balances the needs of tenants with the need to invest in new and existing stock. In reality there may be a small number of examples where rents have been increased beyond limit rent, which are recovered through the rent rebate subsidy system. The proposed model for removing the flexibility for all council housing landlords to set their own rents can feel like a heavy-handed response. It might be more appropriate to find a means through which to manage the small number of outliers rather than implement a system of rent regulation for all.

Before the social rent reduction many councils were beginning to move their rents towards the formula rent, which are still much lower than rents in the private rented sector. The self-financing settlement required councils to have regard to Government guidance on rents, but let them manage rent levels within the context of their HRA business plans and the borrowing cap. The introduction of a rent standard would therefore remove a significant element of flexibility from council landlords. The government might consider other means for maintain control on welfare spending, such as further investigating how the limit rent model might work within Universal Credit.

If government goes ahead with the rent standard a solution could be to set a different path for councils that need to converge their rents with standard levels. For example, this could take the form of a four year guideline convergence flexibility from April 2020, allowing councils to raise their actual average rents to their average Formula Rent and then from April 2024 their rents could be raised CPI + 1% on an average rent basis.

2. Do you agree that the same requirements should apply to both local authorities and private registered requirements?

The argument for this proposal is based on Government's desire to offer all tenants the same level of protection.

However, councils are far from being on a level playing field with housing associations. If all social landlords are to be treated the same then government must act to end the rules that set local authority landlords at a financial disadvantage:

- Right to Buy. Councils can only keep a portion of the receipts and what they retain is covered by rigid restrictions. Councils should be allow to retain 100% of RTB receipts and allowed to use them flexibility to support local development and investment.

- Councils are treated as public bodies in financial terms. Housing associations have recently been reclassified as private bodies and their debt is therefore no longer registered on the public borrowing sheet.

3. Do you agree with the proposal to permit registered providers to increase rents by up to CPI+1% each year?

We welcome the return of a policy of managed rent increases of CPI+1%, which are broadly right. In the case of local government this should continue to be managed through guidance, and should be set out over a longer period of perhaps 30 years.

Councils signed the self-financing settlement with the Treasury based on calculations of future rent income. The valuation had a built in assumption that councils would complete the process of reaching standard "formula" rents levels in 2015/16. The aim of rent convergence was to align council and housing association rents at the same level. Council rents were around 11% lower than the formula rent on average in 2010-11[1]. However, this window was closed when Government implemented four years of a -1% rent reduction in the Welfare Reform and Work Act of 2016. Those councils that signed up to the self-financing settlement with lower than standard rents are now even further behind. The introduction of a fixed maximum rent increase would lock some councils into low rent levels that will reduce their capacity to build as many new homes.

It is important to acknowledge that the move to regulate social rents does not only control welfare spending but limits the capacity to increase rental returns from tenants that do not receive welfare assistance. In fact, our Setting Social Rents report with Capital Economics demonstrated that, while CPI+1% increase are broadly right, a greater level of local discretion on rent setting could generate increased rental returns to invest in a level of new and existing housing stock which would actually generate welfare savings overall [2]

4. Do you agree with the proposed direction as it related to social rent properties?

We do not agree that the introduction of a direction is necessary. Other options should be fully explored to avoid unintended consequences for new supply.

5. Do you agree with the proposed direction as it relates to affordable rent properties, including the proposal relating to the re-setting if affordable rent?

No major changes are proposed. However, we do not agree that the direction should be applied to local authorities.

6. Do you agree with the proposed arrangements for making exemptions from the rent standard on financial grounds?

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[1] Implementing self-financing for council housing, CLG Guidance 2011

[2] Capital Economics, Setting Social Rent 2018

http://www.arch-housing.org.uk/media/111397/capexrents.pdf

Certain types of council housing would be exempted:

- Shared ownership low cost rental accommodation
- Intermediate rent accommodation
- Specialised supported housing
- Relevant local authority accommodation
- Student accommodation
- PFI social housing
- Temporary social housing
- Care homes

Local authorities would need to seek an exemption from the overall policy from the Secretary of State. Should this policy be introduced the process must be set out well before 1 April 2020 to allow local authorities sufficient time to secure an exemption.

As noted in Question 3 there must be a process of transition to allow councils to complete the process of “converging” rents to standard levels.

7. Do you have any other comments on the proposed direction?

No further comments on the direction.