We need to talk about rents
- in the social and affordable housing sector
A report from CIH and L&Q

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Laura Shimili
www.cih.org
024 7685 1700
laura.shimili@cih.org
Introduction

As the issue of the future of sub-market rents starts to get ministerial attention, CIH and L&Q have captured some ideas, lessons, parameters and principles to inform debate on policy for how rents are set and increased, and these are set out in this discussion paper.

Sub-market rent in England is at something of a crossroads and decisions on rent policy will play a key part in determining the social housing sector’s future direction of travel, its contribution to wider public policy and housing priorities, its client group, and the experiences of current and future tenants.

Rental income is social landlords’ main resource to run their businesses and meet their commitments to the management and maintenance of existing housing, as well as to new development and to wider community investment. Whether sub-market rented housing is provided by housing associations, local authorities or private organisations, national decisions on rents have a direct consequence for landlords’ business decisions. In turn, these affect the nature and quality of the rental property provided to current and future tenants.

The contribution rent policy can make to the delivery of new homes has dominated discussions to date, but it is by no means the only important factor, and there will be tough choices to make when balancing the objectives of any future rent system. Affordability for tenants, viability of landlords’ housing services, and perceptions of fairness are all objectives that merit attention as key priorities in addition to rental income being a source for new investment.

We have reviewed current challenges faced by rent policy, looked at how rent policy fits with wider policy agendas, considered objectives and options for a future rent system, and explored issues which could constrain reforms. This report presents our findings as well as several recommendations to government as to how it should proceed to develop a suitable rent framework for the period beyond March 2015.

Formal review of rents

We are calling on the government to undertake a formal, public review of policy for rent setting and rent increases from 2015 that reaches beyond the need to find a successor to the Affordable Rent model. The time is ripe for such a review, especially because rent policy did not receive specific consideration as part of the fundamental changes recently introduced to the social housing sector’s funding and operation. We recommend that no further changes or new policies are introduced before a swift but thorough review of the current system and future options for sub-market rent policy is carried out. To give certainty for future planning, we suggest a rent policy review and consultation is undertaken within the next few months with a view to proposing a new rent framework for long-term application from 2015. Alignment with the next Spending Review will be particularly important.
In taking any decisions on a new rent settlement, the balance and trade off between affordability, landlords’ financial capacity and the demand on government finances, including the balance between capital and revenue funding, need to be considered carefully. A new rent settlement that goes beyond 2015 should explicitly recognise the various interactions and provide more clarity about the overall purpose of social housing as reflected in rent policy for the sector.

**A changed housing environment**
The landscape for social housing has changed, largely due to a number of new policies and proposals carried out in recent years:
- The Housing and Regeneration Act 2008 introduced a different definition of social housing, as housing let at less than market rents
- The subsidy model for the 2013-15 spending period reduced grant levels for new development, and there is no clarity about the development model after 2015
- New development is now being brought forward via the Affordable Homes Programme, with low capital subsidy rates and allowing for higher rents to generate sufficient revenue to service the debt needed to complement capital subsidy
- The new ability of the London Mayor to set rents in relation to new supply when funding any type of affordable housing provision
- Proposals for ‘Pay to Stay’ that would allow higher rents to be charged to certain groups of people based on their income
- Guidance on allocations giving more flexibility on who gets priority for social housing and encouraging ‘managed’ waiting lists
- For-profit organisations providing social housing and not-for-profit providers moving into market renting
- Attempts to restrict increases in the housing benefit budget by tightening local housing allowances and by various measures affecting the social sector
- Welfare reform is likely to bring a reduced and less predictable rental income stream, which could affect landlords’ ability to access finance as quickly and cheaply as they have done in the past.

In the rest of this report we explore key challenges, why they matter, and possible options for a new rent system for use in England from April 2015. Our intention is to highlight the main ideas and issues which can inform a review and to facilitate discussion about future rent policy.

**Report overview**
The numerous changes introduced through the policies and proposals highlighted above leave us with three key challenges for the current approach to rents and rent setting:
- The increasing number of alterations and exceptions to the ‘formal’ rent policy that still applies
- The lack of clarity about future rent policy
- Increases in levels of rents combined with additional restrictions in welfare benefits, which together reduce affordability.
In Part One we set out the challenges for the current rent system and explain their importance. To address these challenges we recommend a closer look at how rent policy fits with wider government objectives, steps to reduce the lack of certainty around future rents, consideration of welfare policy and the impact of rents on disposable income, and adoption of one agreed measure of rental affordability.

In Part Two we consider ways in which future rent policy can meet these challenges. We look at a set of principles and objectives for a rent system, identify different options for system designs and test them against these objectives.

In Part Three we show where aspects of regulation and tenancy law would constrain or facilitate reform of rent policy.

Throughout, we argue that affordability, fairness and viability are three key desirable objectives that should inform the design of rent policy in the social and affordable housing sector. We illustrate how difficult it is to give equal weight to these objectives and we also show, from international experience, some of the longer-term consequences of actively deciding not to seek an even balance between them. We show that a system where additional rental income is raised by charging higher rents to some tenants that can afford them, and is used to help other tenants that can afford less, is technically possible and can work to achieve the necessary balance between these key objectives.

In conclusion, we emphasise our recommendation that the government commits to a formal public review of rent policy very soon and makes no further changes until a review is complete; and we stress the need for a new rent framework and a new long-term rent settlement to be announced with the forthcoming Spending Review.
Part one – Three key challenges for rent policy and why they matter

Challenge one – The increasing number of changes to rent policy

Rent policy can play many roles, for example supporting investment in current and new homes; ensuring the price charged matches the intended customer group; and creating consistency of product and price across providers and properties. It operates in conjunction with other policies to achieve the overall objectives of social housing. In this section we look at how changes to rent policy and to those policies with which it interacts, such as welfare policy, necessarily impact on the overall objectives delivered. Recent alterations to rent policy have led to divergence from one core approach, which creates confusion and affects its contribution to wider objectives. The overarching government objective of reducing the public deficit and cutting welfare spending can have an effect on the future direction of rent policy, by imposing caps or restrictions on rents in the social and affordable housing sector which in turn have a direct bearing on the sector’s capacity and the way it can deliver its stated objectives.

First we look at alterations to rent policy and the confusing picture they have created. We then look at how wider government objectives that have been announced can impact on rent policy and landlords’ financial and operational capacity.

In the last few years there have been significant changes to the funding model (less capital subsidy) and to the reasons for social lettings (the introduction of fixed-term tenancies and closed waiting lists). Rent policy is an inherent part of delivering both, with Affordable Rent and ‘Pay to Stay’ proposals introduced alongside the established social rent framework to support their implementation. Little consideration has been given to the long-term implications of these major changes for the sector - its landlords, tenants and communities; nor are these implications yet properly understood.

Although evidence on Affordable Rent lettings is limited so far, there is little sign yet that low-income working households are able to afford the new higher rents. Affordable Rent properties are being let to tenants in receipt of housing benefit in a very similar way to lettings of social rent properties, as shown by analysis in the UK Housing Review 2013. This is likely either to reflect concerns that tenants not in receipt of benefit will not be able to afford the higher rents, or show that Affordable Rent properties are considered anomalous and so are not being treated as a distinct segment of the market to be let in appropriate ways to a different client group. Either way, this suggests that both the purpose and operation of social housing can be affected by such changes and by the divergence in rent levels. Loss of coherence in operation presents difficulties for providers, tenants and policy-makers alike.

Announced government objectives such as reducing government spending and cutting welfare expenditure can have the effect of imposing a different direction for rent policy, for instance by
introducing caps on rents or on the level of rent increases that housing benefit can pay for. These elements directly impact on the rental income generated for landlords and can therefore put in jeopardy the delivery of key landlord objectives. These interactions between rent policy and government fiscal and welfare policies need to be recognised and looked at carefully and the balance between the different objectives needs to be made in a way which does not have unintended consequences for landlords and the communities they serve. In this regard, when looking to the future, creating certainty about the new rent framework, is as important as the welfare settlement. How these interactions will be reflected in government spending decisions as part of the next Spending Review will be a key indicator as to the future direction of travel of the sector.

In summary, closer attention to how rent policy fits with wider government objectives, and to the implications of other government objectives for rent policy, will help to give much needed clarity to the long-term vision for rent policy and to the role of social housing generally.

Challenge two – Lack of certainty on the future of rent policy

As the current rent and investment settlement for social housing is due to come to an end in 2015, landlords, lenders and tenants are increasingly keen to know what will happen after that date. This section discusses why certainty about the longer-term future of rents is important for landlords, for lenders and for the health and sustainability of the sector.

Funders and access to finance

Here we look at why certainty matters for funders and how it affects landlords’ access to long-term finance.

Inflation-linked rent increases give valued certainty for lenders around their return on investment, so the current rent policy which allows rent increases of RPI plus 0.5% has meant that providers have operated in a stable financial environment. However it is not certain that this element of rent policy will continue beyond 2015. This lack of certainty may affect lenders’ current decisions, and the sector’s ability to secure funding for future investment.

Recent policy decisions on welfare benefits have drawn attention to the fact that earnings have been rising more slowly than inflation. It is clear that a rent policy that allows annual above-inflation rent increases while earnings are running below inflation can put pressure on tenants’ budgets and has implications for housing benefit expenditure. There are bound to be arguments that rent policy should be brought in line with earnings.

Another argument for a move away from the current uprating policy envisages retaining an inflation link, but linking rent increases to CPI instead of RPI, largely to reduce upward pressure on the housing benefit bill.

Discontinuance of above-inflation increases and/or a change in the inflation measure used would both have an impact on landlords’ ability to service existing debt and to fund new finance.
Imminent changes to the way both CPI and RPI are calculated make it difficult to assess the scale of this impact, but it is often the case that the new levels would still be lower than the current measure of RPI, and that both income and borrowing capacity would be reduced to some extent. If combined with other policies such as reduced subsidy or a cap on rents, it would significantly erode landlords’ capacity for investment and growth over time.

Breaking the link to inflation would be very serious because it would remove a highly valued certainty for funders and may breach terms of existing facilities, drive changes in funding terms or even alter the types of lenders prepared to invest in the sector. The risk of such a change creating a domino effect of defaults on borrowing and a hiatus in funding streams is very high.

When taking a view about the future uprating of rent increases, it is important to remember that there are already two other factors that make landlords’ access to finance more challenging and expensive than it has been. One is the lending market and how it has changed since the 2008 crash, with lenders looking to re-price facilities and increase their margins. The other is welfare reform and the increased uncertainty it brings to landlords’ income streams. The possibility of adding extra uncertainty to these factors is not attractive to lenders or to landlords.

Anticipation that the current attractiveness of the sector and its finance streams could change in the near future could affect decisions taken by lenders now, which would impact on landlords’ investment and spending capacity even in the short term.

**Landlords’ planning and responsiveness**

Housing associations and local authorities need time and certainty about their main income streams so that they can plan for the future with confidence and therefore manage their businesses effectively. Modelling of future rental income informs the development of realistic plans for servicing existing debt, new borrowing, spending and investment. Lack of knowledge about either rent policy or funding available post-2015, coupled with lack of information even on possible options, makes this forward planning very difficult.

Despite having no information on what is coming next, landlords still need to assess and understand the long-term consequences of different national policy options for rent levels and rent increases for business planning purposes. Awareness that these options could become part of rent policy, but lack of clarity on which will come forward, make the planning processes more difficult and time-consuming, and affect ability to plan properly for the future.

As well as the need for solid business planning, there is a growing need for appropriate responsiveness to market conditions. In some places, social/affordable rents are quite close to market prices and social housing is making an offer based more on stability and quality of accommodation than price. In these places social landlords can face competition for customers from market landlords and they may need more flexibility to tailor their offer to various groups of customers. For example in some cases there may be an appetite to charge lower rents so they can offer the right balance of affordability and quality.
With just two years to prepare post-2015 investment, expenditure and housing management strategies, landlords need indications from the government about a new rent framework and settlement so they can ensure their business plans remain robust, deliverable and maximise potential value.

**Ensuring a well-managed and healthy sector.**

By making sure the sector is well-managed and has healthy finances the social housing regulator plays an important role in maintaining the sector’s good reputation and its ability to attract lenders and secure finance at favourable terms. Therefore the regulator needs to be able to look at the likely trajectory of landlords’ businesses beyond the short term.

The regulator mainly focuses on risks, so the way providers manage their businesses and how well they are able to plan ahead to meet commitments matters, in particular when their plans involve agreeing long-term financial deals. The lack of clarity about the future of rent policy and the funding model beyond 2015 therefore affects the ability to make robust risk assessments. Moves towards a different system where rents are set more flexibly by individual landlords would have clear implications for the processes the regulator adopts to regulate the sector, with the likelihood they would become more detailed, involved and complex. The regulator would need to plan for this now, in terms of skills and resources.

The lack of knowledge about the rent framework after 2015 creates risk for regulation of the sector’s overall performance as well as for landlords’ business planning and borrowing. As we are in a situation of significant demand for affordable housing and continuous under-provision of supply, the need to ensure medium- to long-term viability and effectiveness of providers of these products should not be overlooked. In this context rent policy matters and can make a significant difference.

The government should take steps to address the lack of certainty around future rents. However, certainty is not the only factor so a very rapid decision taken without thorough assessment is unlikely to be appropriate. That is why we suggest a rent review and consultation is undertaken within the next few months with a view to proposing a new rent framework in the Spending Review for application from 2015.

**Challenge three - Increasing rents and reducing welfare worsen affordability**

In this section we look at the challenge of setting rents to achieve affordability, firstly considering the different affordability measures in use and then how welfare reform can worsen rental affordability and question the role landlords should play with regard to their existing tenants. While rents need to be high enough to sustain delivery of social landlords’ core objectives, they also need to be affordable for tenants. This focus on affordability delivers a social purpose but also, ideally, a business purpose as tenants should be able to meet rent payments and so deliver a secure income stream.
Affordability and ways to assess it

If social housing is to cater for people who struggle to access housing in the main market, it is important to have an agreed measure of affordability. The different measures of affordability and the lack of one ‘accepted’ definition are confusing and create a number of possible scenarios when it comes to setting rents that are affordable to people on low incomes. Of the four measures - rent-to-income ratio, residual income after housing costs, the poverty line and the Minimum Income Standard (see table below) - we think the residual income after housing costs is the most relevant measure of affordability for people on low incomes, as it reflects better what disposable income they have available to spend.

There are currently a number of measures that can be used to determine and assess affordability.

<table>
<thead>
<tr>
<th>Affordability measure</th>
<th>Description</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent-to-income ratio</td>
<td>Rent should be no more than 25% of gross or 35% of disposable income</td>
<td>Easy to use</td>
<td>Does not relate to the actual amounts of money a household needs to live on</td>
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<tr>
<td>Residual income after housing costs</td>
<td>An amount of income that should be available after housing costs as the minimum standard of living</td>
<td>Gives a more realistic measure of rental affordability for low income households</td>
<td>More difficult to work with as requires detailed household income data</td>
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<tr>
<td>Poverty line standard/ budget standard</td>
<td>Levels of disposable income after housing costs should not be below 60% of national median income or 120% of income support levels</td>
<td>Easy to measure as pegged to general incomes</td>
<td>Does not reflect that when general incomes decrease the lowest income households are disproportionately affected by changes in income and get deeper into poverty, even though the ratio may stay the same</td>
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<tr>
<td>Minimum Income Standard (defined by JRF ‘A minimum income standard for UK in 2012’)</td>
<td>Disposable income after housing costs should be at or above a socially defined level of income needed to participate in society</td>
<td>Promotes a level of income that would allow full inclusion in society, and takes account of increases in consumption prices to reflect when more income is needed to fulfil the same needs</td>
<td>It can be difficult to gain political support for assisting people to achieve residual incomes that are higher than the rent-to-income ratio and the poverty line</td>
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Despite a lack of precision about the definition of affordability, social landlords aspire to help tenants to live above the poverty line and maintain a socially acceptable standard of living. Working with affordable rents has drawn attention to the fact that some tenants are living near poverty levels and the desire to avoid this, whilst also maintaining the supply of new homes, is strong. For rents to be affordable they need to be sufficiently low or incomes need to be
sufficiently high. Incomes for low-income earners are particularly low and not likely to change significantly in a weak economy in which there is continuing downward pressure on wages. Alongside this it appears that not all rent levels are delivering affordability in terms of households’ ability to meet their basic needs after housing costs.

**Welfare reform adds to concerns around affordability**

There is a growing body of evidence (Forthcoming report *All in it Together?: The Effects of Housing Strategy, Austerity and Welfare Reform on Vulnerable Groups Living In Social Housing*) that shows that the incomes of people who depend in whole or in part on welfare benefits are being reduced in real terms as a result of welfare reform – their purchasing power is reducing at a time when the cost of living is increasing. Welfare reform is therefore impacting on affordability for tenants, and this adds to the effect of higher rents on what tenants can afford to pay.

Some landlords are trying to find solutions to these rental affordability concerns by creating their own ‘local welfare’ systems, offering tenants payments in kind to provide some form of ‘rent relief’. An example would be giving tenants a ‘rent rebate’ for a limited period of time while they settle into work. Although the Department for Work and Pensions (DWP) advocates use of other types of local solutions such as discretionary housing payments or the new local welfare assistance funds, it remains a concern that the reduced support provided by a slimmed down national welfare system looks set to increase the number of households who cannot afford to pay for a home that meets their needs.

We argue that relying on philanthropic organisations or local authorities to devise and apply local (and inevitably) temporary solutions to an ongoing affordability issue is not a good solution to the national problem of people not having sufficient income to be able to afford sub-market rents. Within the current rent and welfare framework, landlords may accept the challenge of continuing to provide for the same profile of tenants but with a shortfall between benefits and rents, or they may begin to provide for higher-income tenants leaving a gap in provision for certain groups.

Any future rent policy needs to take account of (and integrate with) welfare policy beyond housing, the likely future incomes of tenants and how rent levels will impact on their disposable incomes and quality of life.

In addition, at a time when concerns about households’ ability to afford their accommodation are prevalent, we need one agreed measure of rental affordability to complement and inform rent policy so that the outcome is that households have enough disposable income left to sustain a reasonable standard of living. Ability to contribute to new supply must not override matters of affordability in setting future rent policy.
Part Two - Possible approaches to rent setting

In Part One we identified three key challenges faced by the current rent system: an increasing number of policy exceptions muddying the delivery of the objectives of rent policy and the role of social housing generally; lack of certainty about the future policy direction affecting business planning, regulation, and funding provision; and a combination of higher rents and reduced welfare causing tenants to struggle with affordability and landlords to develop their own solutions.

Future rent policy needs to face up to these challenges. Below we consider ways in which this can be done. We look at a set of principles and objectives for a rent system and identify different options for designs that would deliver these.

Objectives of a rent system

Objectives identified in discussion with representatives from the sector have been aggregated into the following list of desired characteristics and practical outcomes for an efficient rents system:

1. Simplicity, fairness, transparency and consistency, and relevance to local markets
2. Affordability, ability to incentivise work and an agreed relationship with the welfare system
3. Attractiveness for investors, clear relationship to the funding regime for new supply, support for effective management and maintenance of existing stock, and able to be regulated with minimal interference.

The first set of objectives refers to the ability of a rent system to be easily understood and perceived as fair by existing tenants and those outside the sector. The way rents are set needs to be transparent - i.e. refer to a set of rules that are clear and consistent and lead to rents that are comparable between landlords for similar types of properties – in this regard the benefits of rent restructuring (the formal rent policy since 2002) should be retained. At the same time the rent setting system should have some mechanisms that allow a degree of flexibility to respond to local market conditions and characteristics.

Having rents that are affordable for the intended client group is a key desired output, particularly in a climate of low economic growth, reductions in real-terms earnings and changes to welfare benefits. With a commitment to supporting household self-sufficiency, the ability to incentivise work through rents is desirable. When social rents are close to market rents, households moving into work (and out of benefits) will need higher incomes to afford rents without help, whereas with lower rents the additional income needed will also be lower. The relationship to the welfare system needs to be clear and concerns about containing welfare spending should not hold back landlords’ investment capacity.

As touched on in Part One, rents also need to be set at a sufficient level to sustain landlords’ business plans and viability and be attractive for funders. A clear relationship between rents and the funding regime for social and affordable housing is essential as they are both key determinants of landlords’ core management, development and investment activities. A rent system that is easy
to administer and can be regulated with minimal interference is desirable for the regulator and this is important in terms of the role it plays in giving lenders the required confidence to invest in the sector.

We would expect to test any proposed rent policy against its ability to deliver these outcomes and characteristics.

As policy is designed, choices and trade-offs are often made between desired objectives and some looked-for outcomes or characteristics may be dropped in the course of developing an implementable policy that satisfies the strongest imperatives. Policy-makers are, intentionally or not, on the verge of making significant decisions about the interface between investment, rent, allocation, purpose of social housing, and welfare policy, and it looks likely that securing ways to increase supply could be the driving factor in those decisions.

At this stage it is helpful to look at other countries’ experiences to see what can be learned about the longer-term outcomes and consequences of striking a balance and making trade-offs between these competing requirements.

**International experience**

This international review illustrates how other countries have chosen to balance the role of sub-market housing in the wider market, rent setting for the sector and government funding. They also show challenges or additional requirements arising from these systems, which could provide useful lessons to inform discussions in England. We have grouped the countries according to the different roles played by social housing: a ‘wider affordability system’ for France, the Netherlands and Sweden and an ‘ambulance service’ for Australia and Canada. These compare with the ‘safety net’ role that social housing performs in England (and in the rest of the UK), and follows categories suggested by Mark Stephens (The role of the social rented sector in S. Fitzpatrick and M. Stephens (eds.) The Future of Social Housing).

**‘Wider affordability’ sectors - France, the Netherlands and Sweden**

In these countries the social housing sector is similar to or bigger than that in the UK and provides housing at below market rents for a wide range of customers, with rents that are typically regulated (across both social and private sectors). If we assess the ‘wider affordability’ sector against our three objectives, we see that it is not always possible to ensure affordability for customers on low incomes through a flexible rent policy at the same time as allowing landlords to sustain ongoing capacity for investment. A flexible rent policy might result in worsening affordability for tenants whose incomes do not allow them to pay higher rents and are therefore unable to access accommodation.

While such a policy increases the sector’s capacity to maintain existing stock and invest in new supply, a side effect can be a gap in the provision of housing for very low income groups. In terms of simplicity, fairness and predictability, how well the rent systems in the ‘wider affordability’ sectors perform is a matter of perception from a domestic perspective and as such is outside the scope of this report.
France

The social housing sector in France represents 17% of the market and rent setting is determined through agreements between social landlords and the government, associated with subsidised loans. Social sector rents, based on subsidised construction costs, are on average 64% of market rents; the gap is bigger in the cities than in the countryside (e.g. in Paris social rents are about 50% of private rents). Annual rent increases are strongly influenced by the government in both the social and private sectors.

Although there are measures (tax incentives) to encourage provision of intermediate-rented private lettings (with rent levels capped at 70% of market rents), this sector is limited and largely confined to regions where there is a big gap between social and market rents.

Despite the sector having a ‘wider affordability’ role catering for a mix of customers, a new ‘very social’ sector has emerged alongside the main sub-market housing sector for people excluded from the main sector due to their low incomes and the difficulty they face in affording rents.

The Netherlands

In the Netherlands the sector represents 32% of the market. There has been no direct subsidy since 1995 and government has loosened rent regulation, in both social and market sectors to generate capacity in recent years. This has increased landlord incomes but also put pressure on housing allowances. Most lettings (private and social) are still held below market levels and subject to rent regulation. Social rents are on average 70% of market rents and regulated private rents on average 83% of market rents. The sector as a whole has a healthy surplus and there has been discussion about how the surplus should be used.

There have been demands for the social sector to be reduced in size, mainly through a proposed ‘right to buy’ policy aimed at selling off a large proportion of units. In future, housing associations will have to direct 90% of their lettings to households on low incomes, although the income ceiling is set fairly high (34,000 euros per year). The remaining 10% should be for people in urgent need regardless of income, e.g. their house is being demolished.

Some housing associations have responded by concentrating their activities solely or largely on lower-income groups. Others aim to continue to provide for a broader market, and plan to do this by raising rents on a proportion of relet properties so they are no longer below the regulated limit but still cater for income groups not far above the 34,000 euro level.
Sweden

The social housing sector is 18% of the housing market (and in addition there is a large co-operative sector). Social housing is mainly owned by municipalities; it receives loan guarantees rather than direct subsidy. The sector has a broad remit to provide affordable housing rather than to cater mainly for low-income groups. Actual rents are set through negotiations between local housing companies and the local tenants union. The outcome is rent levels that are somewhat below the market level in high-pressure areas but may be above the market level elsewhere.

The rent-setting system was challenged under EU law in 2005 on unfair competition grounds. The complaint mainly related to the municipal companies’ practice of setting sub-market rents, where the resulting competitive advantage was considered a type of ‘subsidy’. The complaint was eventually withdrawn but the compromise was to pass new legislation requiring the companies to be more business-like but also acknowledging their public purpose.

While there is a consensus that the companies should not only cater for low-income households, there have been complaints that their tendency to move up-market has left marginalised groups even more marginalised. Local authorities have devised their own solutions, ranging from leasing from private landlords to trailer parks, to meet these needs outside the formal social sector. This has had the paradoxical effect of creating a sub-market, unregulated sector which nevertheless is publicly sponsored, resulting in considerable criticism from homelessness groups.

‘Ambulance service’ sectors - Australia and Canada

The picture is very different in these countries, where the sectors are much smaller than England’s. It is typical for such systems to have means-tested rent setting in order to restrict access to what is a rare resource. When assessing how well such income-based rent systems perform against our three objectives, it is possible to see that rents based on income perform well on the objective of affordability but less well in terms of incentivising work - as rents which rise with incomes effectively create a high marginal tax rate. Another drawback is that without subsidy such systems are not sustainable for landlords in terms of ongoing investment in their stock, and do not generate enough revenue to invest in new supply. In terms of simplicity, having rent set as a percentage of income may be easy for tenants but it is less straightforward for landlords who need to monitor tenant incomes and also predict likely income raised from the customer base.

The Canadian example is of particular interest as it illustrates the stark interplay between very low rents to achieve affordability, investment in existing stock and new development.
Australia

The sector is only 5% of the housing market. Most social sector provision is by state governments and community-owned non-profit bodies.

Access to the sector is governed by a stringent means test that effectively restricts new tenancies to people who are largely or wholly dependent on state benefits. Property rents are set at market levels, but charges to individual tenants are generally set at 25–30% of incomes (inclusive of benefits) and for the majority of public housing tenants rents are discounted. Rental charges are periodically reviewed in light of any changes to the tenant’s economic circumstances, with higher incomes resulting in increased rent.

Given the link to household incomes, rental income - in particular for state government providers - falls increasingly short of what would be required to fund ongoing management and maintenance. Not only is new public housing construction virtually non-existent, but there is also an ongoing rundown of stock both in terms of accumulating overdue repairs and modernisation within the retained portfolio and the need for stock disposals to ‘balance the books’. The situation is slightly better for community housing providers whose rental income is supplemented by rental allowances to low-income tenants. However it is not clear that this business model is financially sustainable in the long term.

Providers are from time to time provided with capital grant funding or assets (usually in the form of land) or draw on federal government grant to offset their revenue deficits, but generally neither at state nor federal levels is there any ongoing capital funding programme for social housing.

Canada

The Canadian social sector is also small, 6% of the market. Primary responsibility for housing lies with the provinces. Initially social rents were based on a percentage of income (25%, increased to 30% in the early 1990s). There was no reference to actual market rents, and these ‘rent geared to income’ (RGI) rents were very affordable, even to low-income households.

In 1994 federal funding for new development ended and most provinces similarly stopped building. Following a seven-year period of minimal development, the federal government re-engaged at a more modest scale of funding with the Affordable Housing Initiative. Capital grant is supplemented by mortgage finance, and the need to support this financing requires higher rent revenue than was available under income-geared rents.
To balance the objective of generating sufficient revenue to service debt while still meeting the needs of low- to moderate-income groups, rent criteria were established. To be eligible for funding, rents must be at or below average market levels. In practice, most provinces have pushed this down to 80% of the market rent. Rents must be retained at the set proportions for 20 years (rising only according to an annual rent index). This scheme does not achieve sufficiently low rents to help very low-income households, because there is insufficient subsidy.

Different options for rent setting

Having considered the effects of the interface between rents, subsidy and allocation policies in other countries, we now look at what criteria rent levels and rent increases can be based on, and suggest seven options for a rent-setting framework.

Rent setting and rent increases

Although rent setting and rent increases are not the same thing they need to be in alignment. Rent setting occurs when the property is handed over, is vacant or a tenancy is ended (e.g. at the end of a fixed term), whilst rent increases happen while a property is occupied and a tenancy running. As well as keeping pace with rising costs, rent increases can serve a policy purpose, as in the current situation with English local authority rents being raised to converge eventually with housing association rents.

Various rules can be used at different levels in setting rents. At landlord or organisational level rules might be set to ensure the business is sustainable or to reflect its values, such as that income must cover costs or that a minimum interest-cover ratio must be maintained.

At property level, rents may be based purely on property characteristics or be modified to take account of the occupier (separate from housing allowance arrangements). The variations include:

- Historic costs alone – as in Denmark
- Market values – with the property-level rent being either a set proportion of market values or capped at some proportion of values – as with the new Affordable Rent programme
- Rents based on property values modified by generalised income factors to take account of affordability – as in England and the Netherlands
- Market-level rents adjusted in relation to the tenant’s actual income (as in the Republic of Ireland, USA and Australia).

There can also be an intermediate level that relates to the estate or scheme. The estate level is used to establish rents in Denmark, and there is something similar in England in the setting of service charges on an estate or block basis for leaseholders. Rent setting at such a local level can be problematic if it is accompanied by a rule that income must be pooled at that level – it is often difficult to generate enough surpluses for future investment in the estate without triggering very large local rent increases.
Rent increases could be based on:

- Changes in market rental values – with the property-level rent being either a set proportion of market values or capped at some proportion of values
- Changes in property values modified by generalised income factors to take account of affordability
- Changes in inflation – as in England and the Netherlands
- Changes in the tenant’s actual income (as in the Republic of Ireland, USA, Hong Kong and Australia)
- A fixed cash amount.

Overarching rules governing rent levels and rent increases might aim to maintain the relationship between rents charged by different providers in a local area or ensure that rent increases remain within certain parameters. The rent restructuring system in England introduced a degree of consistency and transparency which was welcomed. A new system may need to retain these or risk (by design, or inadvertently) encouraging degrees of variation which then trigger a new era of restructuring in ten years time if they get too large.

When looking at all the options for rent setting it is certainly possible to envisage a simple and coherent system with only one approach to setting rents.

**Options for rent setting**

Here we look at seven possible approaches to rent setting and increases which broadly cover the variations outlined above. All would have different implications for the sector, its landlords and tenants, and we make some preliminary remarks about how each of these approaches would perform when tested against the objectives set out earlier.

**1. Continuing the current dual system of target rents and affordable rents**

Given the current focus on reducing public spending and maximising the potential of landlords’ financial capacity to increase housing supply, it is possible to envisage that future rent policy could be very similar to the current mix of target rents applying to the majority of the social housing stock and Affordable Rents applying to a small proportion of new and re-let properties.

If we test this option against our three mentioned objectives it is possible to see that a lack of consistency and transparency would result from the application of a set of diverse and complex rules that could cause confusion. In addition allowing rents to be charged ‘up to’ 80% of market rents would not produce clear or consistent rents across providers or between properties.

The ability of the target client group, i.e. low income working households, to afford the higher rents could be affected, in particular at a time when welfare support is being reduced and the economy is in the process of a very slow recovery from the recession. This risks producing a dual allocation system alongside a dual rent policy.

Landlords’ financial capacities would benefit from the Affordable Rent policy more than the target rent element. The increased capacity will also vary significantly according to the differential
between target and market rents and therefore the policy would be dependant on geography and favour high value areas.

Professor John Hills has previously argued that there are advantages in moving rents closer to economic levels. He said moving in this direction would involve far fewer of the downsides of the provision of sub-market housing as a rationed resource, such as less choice for consumers, constraints on mobility, administrative costs, reducing competitiveness between landlords and stigmatisation and resentment. However these benefits would stem from an approach that applies to the whole stock rather than to a small proportion and would have to be offset by the extra cost to the taxpayer of increased benefit spending as a result of rents being closer to market rents. We are not suggesting that ‘Affordable Rents’ should be applied to the whole stock but by applying these to only a small proportion of the stock it is difficult to see how the positive outcomes outlined by Professor Hills have been realised; for example recent experience with mid-market rents shows that flexibility can lead to several layers of sub-market rents where the access policies are then open to challenge.

It has been suggested that a separate rent policy could operate in London, linked to the Mayor’s new investment powers which would be similar to that of moving rents closer to economic levels. Where new properties are subject to investment decisions by the Greater London Authority rents could be negotiated on a scheme by scheme, or programme, basis. Equally rent increases for existing properties could be agreed if linked to commitments to deliver new supply. This approach would include some elements of public benefit in return for increased public expenditure in the form of housing benefit. However, a very localised system would not perform well against the objectives of consistency, transparency and fairness.

2. Applying the current target rent formula across the board
To tackle recently emerging challenges of worsening affordability and loss of consistency in rent setting, a move back to exclusive use of the target rent regime (with no form of Affordable Rents) can be suggested.

If the only way to set rents after 2015 was to use the target rent formula, the policy would be simple, easily understood by landlords, clear and easy to regulate, as one rule would apply across the board to all social housing providers. The link to local incomes would be restored, increasing the focus on affordability in terms of likely residual income.

However this policy would present a number of issues. If the policy were applied without capital subsidy to match, it would restrict the potential for development, achieving mixed communities and providing a diversified offer from landlords. A desire to increase supply but minimise capital subsidy would quickly re-create pressures to generate investment capacity by using rent policy to generate additional income (by charging higher rents). Without sufficient capital investment, demand is likely to grow against supply and so another consequence of this policy could be even more rationed provision with stringent criteria for allocation of property.
A variant of the target rent approach could be to set the property size/location component of rent based on the number of bedsaces rather than the number of rooms, and more use could be made of the 5% discretion in the current rent formula to compensate for losses arising from the changed calculation method. This approach would change the profile of income from properties, perhaps making the charges slightly fairer for households, and would help landlords to rebalance reductions in income from housing benefit following the introduction of the social sector size criteria. We look further at models that allow landlords additional flexibility below.

3. Applying the Affordable Rent model across the board

Another option that could be of interest to some stakeholders is to pursue a policy of Affordable Rents only across the board i.e. all social tenants are charged higher rents. Rents could be set in a similar way to the current Affordable Rents i.e. up to 80% of the market rent.

This policy looks as though it could produce a range of advantages including the ones highlighted by Professor Hills e.g. less need for development subsidy from the government, increase landlords’ ability to add new supply and, consequently, possibly lessen off the need to ration access. However a key concern with this option would be a significant increase in housing benefit expenditure. In addition such a policy would affect existing tenants, widen the poverty trap and worsen work incentives as affordability is squeezed and benefit claims increase. The impacts would be worse in high cost areas.

If coupled with a desire by government not to increase housing benefit expenditure, this policy could drive a shift away from letting to the current customer base – people on very low incomes with the majority in receipt of housing benefit - towards middle income groups who are less dependent on benefits (as has occurred in Canada). Although this would not be at odds with the objective of providing sub-market housing as such, shifting focus from one group to another would create a gap in the provision of well-managed secure accommodation for those on the lowest incomes (as has happened in Sweden and France). It would also raise questions about existing tenants and whether over time they might be driven (through rent and benefit policy) to leave the sector.

Implementing Affordable Rent has shown that the impact of moving towards a system of rents closer to economic levels affects affordability considerably while only marginally improving landlords’ investment capacity. The additional rental income generated does not necessarily translate into higher levels of borrowing because lenders perceive additional risks associated with the Affordable Rent programme and the viability of the stock.

It is also worth noting that ‘up to’ 80% of market rents is not as clear and coherent as a policy that has a fixed relationship with market prices. Efforts to make properties affordable to the intended client group means that the price relationship between different sized Affordable Rent homes can be quite confusing and introduces another level of inconsistency in pricing.
4. Minimum and maximum rent thresholds
An option which is of particular interest to landlords that operate in weaker markets is one where the regulator sets minimum and maximum rent thresholds and landlords have the flexibility to set rents within these limits depending on the circumstances of their current and prospective tenants.

In this option, rents could be based on the property location and its quality, additional services provided, and the intended client group. This approach would give landlords increased competitive advantage across their suite of products.

The minimum and maximum threshold could be set by reference to market rents e.g. the minimum threshold could be 30% of average market rents and the maximum threshold could be 80%. Within these limits rents could be based on affordability for tenants in such a way that a rent level that is considered affordable does not exceed 35% of disposable income for the average client group.

As part of this system landlords and customers would even be able to negotiate the levels of rents within the thresholds (with similarities to the Swedish system), for different types of properties and characteristics including size, location, services and the household type. For example people earning a low income would pay a rent that they can afford based on their income; people relying entirely on housing benefit would pay a level of rent equivalent to the minimum threshold; people that would ordinarily not satisfy the need criteria to access social housing would pay a higher rent than the two previous ‘classes’ of tenants, but which would still be based on what they can afford.

We can see that this model would not impact on housing benefit expenditure as those tenants in receipt of welfare benefits would not be paying higher than a minimum level of rent. On the other hand this option could give landlords some extra capacity for investment and development if they also tailored their offer to different types of customer and thus attracted a wider customer base. Clarity about how the system would work and would be applied could be provided by clear rules published by the regulator on how the minimum and maximum thresholds are set, how they are indexed, and what affordability measure should be used.

On the downside this option requires knowledge of tenants’ circumstances including what rent they can afford to pay. However as rent setting would be part of a process of negotiation between the landlord and the tenant, tenants would have to provide proof of their income that would justify the level of rent they can afford. Another important downside is that it might be more difficult to predict or model the total income stream landlords would expect to collect from their stock, and therefore require more skilful approaches to income forecasting to avoid negatively impacting on business planning and borrowing arrangements. Also the end results in terms of rent levels would not be predictable as they would depend on local circumstances. However, these disadvantages might disappear as such a system is bedded in and became the norm.
A variant of this approach would be to allow more flexibility within the existing target formula e.g. allow landlords to set rents within 15% of target rents (instead of the current 5%). As a less radical option this would not necessarily generate significant amounts of additional income but would allow landlords more flexibility to position themselves in the local market in terms of price and affordability and continue to provide some new supply. It would enable them to be more responsive to problems of both difficult-to-let and high-demand stock.

5. Use of a formula-based rent with a fixed addition based on household income

Another possible option combines use of a formula-based rent (like the current target rent formula) with some elements of basing rent on tenants’ incomes.

In France, Germany and Hong Kong there are provisions to charge ‘supplementary rents’ on top of a core rent when a households’ income passes a certain threshold. In Germany, one approach is to have a fixed rent at the outset and then a supplementary charge which applies if income rises above the eligibility threshold, with 2-yearly reviews to determine if this is the case. We look at the Hong Kong example below to illustrate the use of a fixed rent charged in addition to a ‘base’ rent.

**Hong Kong**

Rents are low (about 25% of market levels), but there is a supplementary rent system to charge extra to higher-income households. In the past high levels of subsidy were an issue given the range of income groups housed, and as a result measures to scale rent to income were introduced. Rent is not reviewed until a tenancy has lasted 10 years, and new rent levels can then be applied that increase in step with incomes.

These reviews are accepted by people and not seen as administratively costly, although the numbers subject to the higher rent levels are actually small. They are not seen as disincentives to work, given that the income mix in the stock is already high. However, they apparently do encourage adult children to move out so they do not affect their parents’ rents, which is a concern because public policy favours multi-generational living.

This option would provide a clear rule in terms of how rents are set and would generate some additional income for landlords, although the rent levels would be set based on what tenants can afford i.e. if in employment or earning above a certain amount they would pay more rent, otherwise they would not be required to. Experience from France and Germany shows that charging additional rent is infrequently used because of concerns about the impact on social mix and the administrative costs of checking on incomes. In Hong Kong, where there is greater cultural tolerance of the state knowing about personal circumstances, charging supplementary rents appears to operate with few problems.
6. Income-based rents

It is also possible to have a rent-setting system which is based wholly on tenants’ income. Rents are set as a percentage of income in the Republic of Ireland, Australia, New Zealand and the USA, and they increase in step with incomes. Systems that take account of tenants’ incomes for the purposes of rent setting are used to restrict access to a rationed and rare resource for people on low incomes and promote affordability for these groups. We illustrate this with examples from the Republic of Ireland and New Zealand.

**Republic of Ireland**

Income-based (‘differential’) rents are charged and are relatively low: the first 100 euros of earnings are disregarded. Above that rent is charged at 3% of income. Maximum rents are less than half market levels.

The social rented sector is 9% of the housing market and is targeted at low-income and other need groups. This means that the sector not only needs significant capital subsidy but also ongoing subsidy to landlords to meet the proportion of running costs not covered by the relatively low rents (about 25% of market levels).

**New Zealand**

The major provider was obliged by government to move towards charging market rents in the 1990s. However, it has since shifted back to offering income-based rents to the vast majority of tenants, with a limit of 30% of income. A small percentage of tenants still pay market rents.

New Zealand has a small social housing sector – about 5% of its total stock.

Whilst these schemes focus on affordability and are transparent, often they are not self-sustaining and additional external funding is needed both to meet landlords’ running costs and fund all new development. Efforts to be self-sustaining and generate capacity for new supply may affect the profile of tenants who can be housed. There can also be a problem for work incentives. The way rent increases in step with income has been criticised (Fitzpatrick and Pawson, 2011) for creating what is in effect a high marginal tax rate – sometimes exceeding 100% - which has a severe disincentive effect on tenants’ efforts to improve their incomes. A recent report by Demos

**Homework: Helping London’s social tenants into employment** suggests that slower and more progressive rent increases as a tenant’s income rises would reduce the disincentive because the marginal effects would be smaller.

In addition income-based rents systems are not necessarily simple to run, due to the nature of income reviews and validations required. The tendency of low-income households to move in and
out of work, or to have variable incomes, requiring changes to the rent, causes administrative challenges for the landlord and affordability problems for the tenant. In terms of generating income for the landlord, contributing to new supply and being attractive to investors, experience from other countries highlights the danger that high administrative costs often outweigh the potential benefits from charging higher rents as tenants’ incomes increase, and that rents based on income make landlords’ income streams uncertain and pro-cyclical (linked to economic change).

7. A redistributive rents system
With an eye on the desire to create a rent system that balances all the objectives identified earlier – one that is fair and ensures landlords’ viability and affordability for tenants – it is possible to combine aspects of several of the options for rent setting described above. The result is a redistributive system that aims to improve rental affordability for existing low-income tenants including those who depend in part on welfare benefits. This is a new option that is neither a continuation of the current rent policy or of any of its separate elements, nor a system observed in other countries.

The redistributive model uses the potential to allocate an additional amount of income generated from rents charged to some tenants (that can afford to pay more) to other less well-off tenants. It relies on landlords’ ability to make payments in kind to tenants without affecting their benefit entitlement – a policy which currently looks set to be retained in universal credit.

Only tenants who are above the level of income that qualifies for welfare benefits would be asked to pay higher rents. It is possible to use different affordability thresholds in order to decide which tenants would be asked to pay higher rents. One affordability threshold could be defined as a level of rent that is less than or equal to 35% of their disposable income. Another one could be the level of disposable income left after housing costs being at least at the Minimum Income Standard (MIS). Different thresholds can also be used when deciding how to direct the rebate, e.g. 35% of tenants’ income, or disposable income left after housing costs being a certain amount such as the poverty line or the MIS.

This system would not require additional funding from central government to be able to offer lower rents for particular groups or increase the rent for the majority of tenants, and it would not unduly impact on affordability for those asked to pay more. However in order to operate such a system landlords will need to have access to tenants’ income information and regularly update/review these records. This would require new administrative processes to be put in place efficiently and also changes to tenancy law and regulatory requirements.

The redistributive model focuses on using rent setting to support affordability for low-income working households. It does not specifically address the possibility of using additional rental income to support development of additional properties. If a clearer balance between these two options were desirable it might be possible to increase rents permanently for households that could afford it but offer lower income households only a time-limited rent relief.
There are parallels between this redistributive system and the proposed ‘Pay to Stay’ scheme, in that higher income tenants would be charged more rent. However, the redistributive model seeks to create a positive benefit for a wider group of tenants rather than being a punitive approach aimed at particular tenants with high levels of income – it is not concerned with the ability of higher-income households to benefit from historic public financial support.

The option performs well against those objectives set out for a rent system which aim for affordability, provision of work incentives and fairness. Whilst it does not link directly to the funding regime for new supply, it does offer policy choices around the additional rental income that can be raised and who benefits when it is spent, either new supply or existing customers. A stable minimum rental income from the ‘floor’ of target rents with a cost-neutral redistributive element would allow landlords to take account of various rental income projections and therefore lenders’ interests are not likely to be affected.

However when we look at whether the redistributive system would be simple, transparent and consistent we can see that there would be a set of different rules applying to target rents, rents based on customer affordability and rent rebates for some customers. The way landlords would do this across the sector would vary and the results would be less predictable. But the merit of the model is to relate rent setting to the landlords’ customer base and therefore help develop a much more customer-focused approach.

Another way to give tenants some support with affordability is to offer a ‘rent relief’ scheme where, when asked by the tenant, the landlord reduces the rent for a limited period of time (say six-eight weeks) while the tenant settles into new employment. This would compensate for a tenant’s additional work-related expenditure and withdrawal of housing benefit. This option is more straightforward than the redistributive model because it does not require any forms of means testing to raise additional income. However as the scheme is not cost-neutral, landlords would have to put aside a fund from surpluses and the numbers of tenants that could benefit is likely to be much fewer.

Summary

This overview of different approaches illustrates their different outcomes in terms of simplicity and consistency of the rule applied to rent setting; affordability and provision of work incentives for tenants; and ability to sustain landlords’ investment capacities and attractiveness for lenders. It also highlights the challenge of balancing different objectives within one rent system. A thorough public review of rent setting would need to explore these approaches in some detail, in particular the continuation of the current dual-track rent system if that is more likely to be the one that is adopted. Before making any decisions, the government needs to assess each system’s ability to deliver the range of outcomes desired, and give consideration to their potential impacts on landlords, tenants and social housing as a whole if they were to be implemented.
Part three - Potential for introducing a different system

The options for a new rent system were presented in Part Two without detailed consideration of legislation, regulation or established practice that would affect or restrict changes to rent policy. Here, we look at the flexibility landlords have to apply new rules to rent setting and rent increases, and discuss the constraints placed on government and landlords by current regulation and tenancy law.

Current regulation
Private registered providers cannot change the way they set and increase rents because the Homes and Communities Agency's (HCA) Rent Standard requires them to either charge or move towards target rents, allowing only 5% tolerance around target levels, with the proviso that they increase actual rents by no more than RPI + 0.5% + £2.

Affordable Rent is an exception to the Rent Standard, but landlords can only charge Affordable Rent for properties which are the subject of individual agreements between themselves and the HCA (including altering the rent levels on a planned 75,000 existing properties during the current Affordable Homes Programme). The approach to rent increases is prescribed by the regulator. The new ability to issue fixed-term tenancies gives providers the flexibility to review rents at the end of a fixed term.

The Secretary of State can direct the regulator to amend the Rent Standard, and the London Mayor has similar powers relating to rents in London. However, even if the Rent Standard were to be made more flexible, there are other constraints on housing associations that limit what they can do if wanting to change existing tenancy agreements (see page 26).

Local authorities have more flexibility to change the way they set rents (the 1985 Housing Act gives them wide powers) but this area has not been tested. Although the government issues guidance on rent setting, there is no specific oversight or scrutiny of approaches taken, and the government’s direct opportunity to influence rent levels is more limited since the ending of the Housing Revenue Account (HRA) subsidy system last year.

In theory the London Mayor could assume the power, currently held by DWP, to limit rents. The legislative changes needed to achieve this may be complex but should theoretically be possible provided DWP were content to continue setting the rent rebate subsidy limitation (see page 26). However, it is likely that there would be significant political opposition from Boroughs that would not want the Mayor to prescribe maximum rents for them.

For both housing associations and local authorities it is likely that government would need to be convinced that the Mayor would act in a way which would protect total public expenditure, particularly in relation to the benefit bill. This could involve significant additional responsibilities and checks.
Current tenancy law

Housing associations (PRPs) – existing and new tenancies
An existing tenancy agreement, and therefore the specified approach to rent increases, can be changed with the consent of the individual tenant. If a tenant refuses consent, in theory a change could be made using a unilateral power to change the tenancy following consultation. However under consumer law, rent increases for existing tenants might be judged unfair and therefore unenforceable, if the increase was bigger than the one set out in the initial tenancy agreement. Landlords can set new rents for new tenancies and include a contractual increase clause that gives them more flexibility around rent increases but it would still need to have some limit, otherwise it would not comply with consumer law.

Local authorities – existing and new tenancies
Councils have more flexibility to change rents as long as they give four weeks notice to their tenants. However, excessive increases in rents could be challenged by judicial review. In practice, tenants’ views and local political constraints are now likely to be more important than the legal provisions in determining how much rents can be increased.

Current and future welfare rules

Local authorities are subject to the ‘rent rebate subsidy limitation’ (RRSL), which means that once they exceed a certain average rent level they would not be paid the full amount for their housing benefit costs. This does not actually prevent them from raising rents above certain levels; it simply attaches a penalty to them doing so. Some councils have in the past breached this limit, and they can choose to do this if they carry the cost themselves. There are also several exceptions to the RRSL, such as councils letting new homes at Affordable Rents.

The introduction of universal credit and the anticipation of further welfare reforms mean that the interface between rent setting and welfare rules is increasingly unclear and subject to change.

This brief review of regulation, tenancy law and welfare rules highlights that, currently, tenancy law and regulation prevent significant changes to landlords’ rent-setting and rent-increase policies, although local authorities do have more flexibility. Tenancy law also restricts the scope for implementation of a new national framework if it affects existing tenants. If a new approach to rents is to be considered thoroughly, these restrictions will also need to be evaluated.
Conclusions

We have highlighted the complexity of interactions between factors seen as important in the social housing system, and have shown the consequences of different approaches to rent policy. The policy review, research and options exercise leads us to make several key ‘asks’:

• A formal government review of rent policy with a view to proposing a new rent framework and having a new long-term rent settlement in place well before 2015 to be announced promptly
• Further changes to rent policy to be placed on hold until the outcome of the formal review is made clear
• The review should focus on the principles of affordability for households, fairness for existing and potential customers and viability for landlords
• In taking any decisions on a new rent framework and settlement the balance and trade off between tenants’ affordability, landlords’ financial capacity and the demands on government finances, including the balance between capital and revenue funding, need to be considered carefully
• A closer look at how rent policy fits with wider government commitments (such as the fiscal mandate, funding for social and affordable housing, whether improving affordability is part of government’s current course of action and the future of welfare policy), to give much needed clarity to the long-term vision for rent policy and to the role of social housing generally
• Rent policy maintains a link to inflation which provides a valued certainty for landlords and maintains the sector’s attractiveness to funders
• An agreed measure of affordability is needed to complement and enhance rent policy so that rent setting and affordability assessment produce similar and predictable results across providers and within different regions
• Any future rent policy needs to take account of (and integrate with) welfare policy beyond housing, the likely future levels of tenant incomes and how rent levels impact on tenants disposable incomes and quality of life
• Consideration be given to all the alternative options for rent systems outlined in the report
• Any rent review should evaluate the current regulatory and tenancy law restrictions to implementing a new rent framework and make recommendations on appropriate changes
• A review, incorporating the issues above, will be required prior to and as a basis for the post-2015 rent settlement, and will also be critical to decisions on any new funding for social and affordable homes post 2015.
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Octavia House, Westwood Way, Coventry, CV4 8JP
Telephone: 024 7685 1700
Email: customer.services@cih.org
Website: www.cih.org

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Cray House, Sidcup, DA14 5HU
Telephone: 0844 406 9000
Email: Steve Moseley SMoseley@lqgroup.org.uk or Oliver Jones OJones@lqgroup.org.uk
Website: www.lqgroup.org.uk