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Championing better homes and communities

October 2022

NFA response to consultation on social housing rent increases from April 2023

Introduction:

The NFA (National Federation of ALMOs Ltd.) is the trade body which represents arms-length management organisations across England. All are not-for-profit bodies wholly owned by their parent councils, created to manage council-owned housing and deliver housing-related services. The NFA represents 23 ALMOs across the country managing around 305,000 local authority-owned properties. They also build and acquire new stock. They devise and deliver support services for tenants and their wider communities. Some administer their parent council's Housing Revenue Accounts on their own and others jointly with their parent councils. All are engaged in discussions around stock investment and asset management and lead in tenant consultation on housing services for their parent councils.

Summary:

We agree that the issue of rent increases from next April for council rents is a problematic one. Councils and their ALMOs are very aware of the impact of the rising cost of living is having on their tenants and the communities they serve. Our members are doing everything they can to try to support people to maximise their incomes, save energy and improve their health and well being during these difficult times. ALMOs across the country are offering money advice, training and employment schemes, information and signposting to other services, food bank referrals and support through the Universal Credit process. Our members manage some of the cheapest rented homes in the country and understand that this helps to provide much needed financial security and safety for people on low incomes.

However, they are also seeing their own costs rise in terms of pay settlements for the lowest paid workers, increases in supplies and the cost of repairs and maintenance. Councils and ALMOs do not want to put up the rent by CPI plus 1% at this time and even without a nationally imposed cap, of the 23 ALMOs we represent none are reporting that their councils are planning the full CPI +1% increase.

But lower than inflation rent rises will lead to a big gap in funding for the much-needed repairs and maintenance that the stock requires let alone meeting the additional pressures of improving energy efficiency or building

much needed new homes and all are reporting having to look at what cuts can be made to planned programmes or services.
We believe the government therefore needs to engage with the sector to plug those investment gaps and help ensure council housing remains financially sustainable in the short to medium term.

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

In principle, we do not agree that the government should subject the maximum social housing rent increase to a specific ceiling for the 2023/24 financial year. However, we understand the government's intention to try to protect households with some of the lowest incomes from an above inflation rent increase next year.

The NFA and its members are acutely aware of the impact of the current cost-of-living crisis on the communities they house and serve and are working hard to try to mitigate that impact in a variety of ways, including providing money advice, employment and training services, energy efficiency work and much more.

Our members are looking at the HRA Business Plans, speaking to their parent councils and tenants and modelling different options at a local level which try to find the right balance between affordability for tenants and financial sustainability for the HRA whilst continuing to provide safe, warm and decent homes for their communities.

We consulted members widely on the plans of their local councils and not one of them was planning the full CPI +1% increase with or without further limits from national government. However, all report that they will need to make savings from their planned maintenance and/or new build programmes to make up for the reduction in income which is expected next year.

So, regardless of whether a national cap on rents is introduced, there will be a need to make up the shortfall in HRA income to help cover the increasing costs of maintaining decent homes and a good service to tenants.

We would therefore ask government to make the money saved from the welfare bill through any cap applied – nationally or locally – available to councils' HRAs to invest in energy saving measures and general repairs to keep council homes in good repair.

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

Notwithstanding our objection in principle to a new limit, if the government decides to go ahead with their proposals it should set it at the highest possible level, 7%. This would allow those councils with some of the lowest rents in the country and the most need for investment in the stock to make appropriate decisions on the rent, whilst providing suitable support for those families who find themselves in hardship.

Every local Housing Revenue Account will be different, with varying levels of debt to service, reserves to use in these exceptional times, rent levels and mixes of tenants in relation to age, family size, health, disability, and employment status. We believe local councils, with their ALMOs and tenants are therefore best placed to make the appropriate decisions locally that find the right balance between affordability and the need to pay for services and invest in their homes.

From our discussions it is likely to be a minority who would decide to increase rents by 7% and most would be looking to lower increases but for those who do need it, it could make the difference between providing decent homes for their communities and not.

The principle of a self-financing HRA is that the council, in consultation with tenants and ALMOs where they exist would be able to make local decisions on rent levels, stock investment and service levels within the framework of a 30-year HRA Business Plan. We welcomed the introduction of self-financing to the HRA back in 2012 and worked with members to support good practice in asset management strategies and financial management.

However, the government has intervened in the settlement so many times since then there has been very little opportunity to properly plan over the long term or make appropriate local decisions on investment without having to adjust almost yearly due to rent policy changes, rent reductions as well as responding to new demands from building safety legislation and climate change targets. This has left many councils without the necessary resources to properly fund investment in the stock let alone build new council homes for people stuck in temporary accommodation or on the waiting list.

It was due to these concerns that the NFA, ARCH and the LGA commissioned Savills to look into the future sustainability of the Housing Revenue Account at a national level and they have been able to model the impact of the proposed caps for us. The key message from that work by Savills is that local authorities need a minimum rent increase next April of between 7-9% to stand still in budget terms but that most are very unlikely to agree to increases in rents to that extent so will be looking to make cuts to investment programmes, services or both.

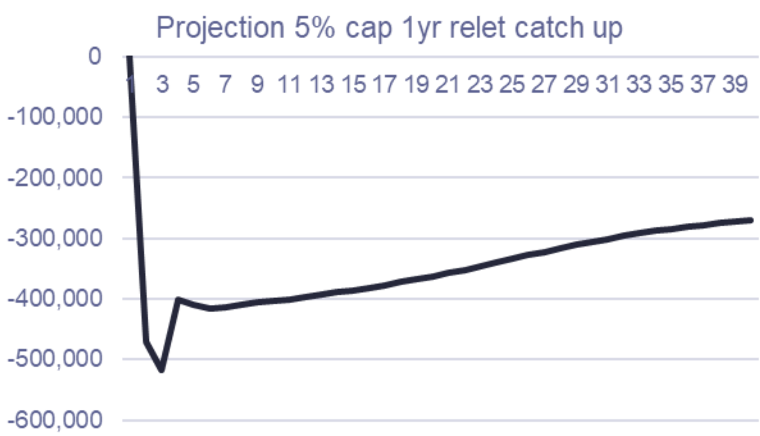
Savills' modelling suggests that capping the increase at 7% would still result in budget losses and therefore we need Government to agree ways in which this could be offset through government grants, revenue support or other measures.

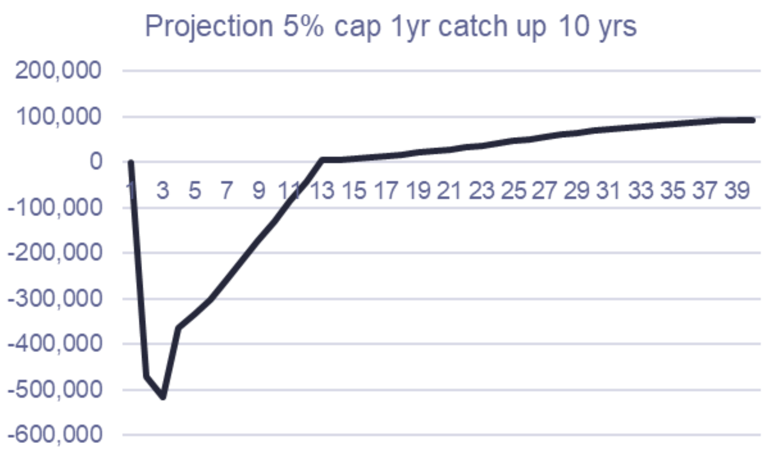
Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

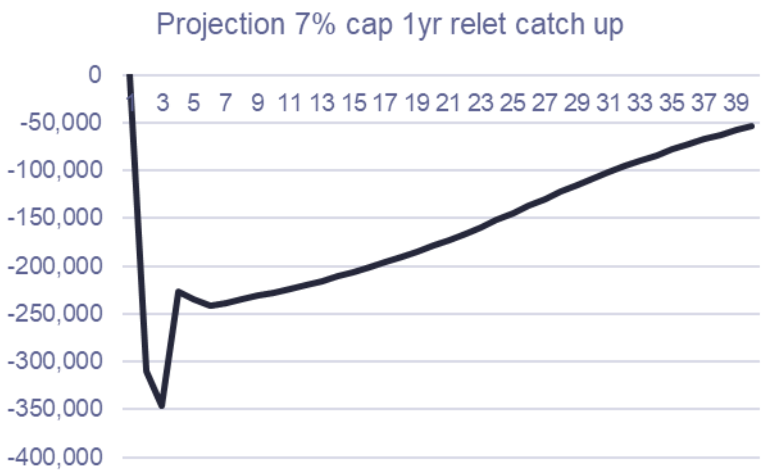
The NFA thinks that any new cap on rent increases should only be applied for one year and we should return to principle of CPI plus 1% as soon as possible, accepting that local authorities and ALMOs will make appropriate local decisions on rent increases thereafter. It is also a very uncertain time economically so councils and ALMOs should be left with as much flexibility to respond to circumstances as possible.

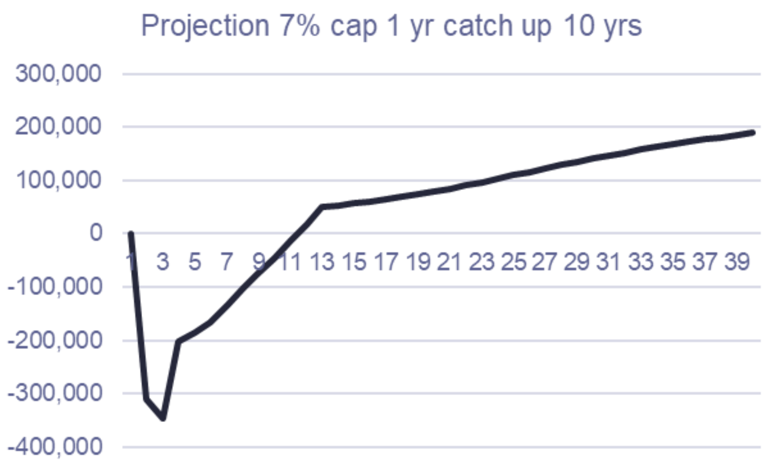
Savills modelling shows that even a one-year rent cap has significant impacts on the level of resource available in the short to medium term for all councils.

As the graphs below show with a one-year cap at either 5% or 7%, allowing reletting at target to catch up only, neither projection returns to a balanced HRA position over 40 years.









The projected net deficits from these are:

	5%	7%
1 year ->	£482m	£321m
2 years ->	£995m	£664m

5 years ->	£2.56n	£1.71bn
40 years ->	£22n	£15bn

With a one-year cap at either 5% or 7%, allowing catch up over 10 years, both projections return to a balanced HRA position at the period when catch up is achieved. However, the feedback that Savills got from councils involved in the research was that catch-up was uncertain even if government policy allowed for it as decisions are likely to depend on future levels of CPI, and that a specific policy towards "re-convergence" would not necessarily affect future decisions on rent increases – as these increases would be above CPI+1% and not be acceptable politically or affordable to tenants locally.

The projected net deficits from these are:

	5%	7%
1 year ->	£482m	£321m
2 years ->	£995m	£664m
5 years ->	£2.34bn	£1.56bn
40 years ->	£9bn	£6bn

As the impacts of any rent cap are compound and have long term consequences, the NFA would welcome some serious discussion with government about how the lost rental income could be made up over time, options include:

- One off grants paid to HRAs as revenue support to cover spikes in inflation in a similar way to Covid grants paid to LAs to support increases in costs or loss of income.
- The flexibility for future rent increases to catch up to recoup the income lost as a result of a rent cap, such as the re-implementation of rent restructuring post 2024.
- Re-distribution to the sector of the welfare benefits bill savings that will be gained as a result of any rent cap.
- Additional capital grant to cover the costs of energy efficiency work and building safety costs in the stock.
- Reducing VAT on capital investment works
- Reducing the PWLB rate for borrowing for social housing
- Broader review of the issues for a sustainable post 2025 HRA settlement

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

Most of our members support the proposed exemption for initial lets and re-lets but we would like to point out that at current relet and building rates in the council sector this will not make up for the financial impact of the decision to increase rents at lower than the current level of inflation.

The Savills research estimates that only 75% of all stock would turnover in 40 years and this mechanism would therefore not be sufficient to support recovery to formula rent at a level sufficient enough to return HRAs to surplus. Savills estimate of the cumulative loss of resources resulting from a rent cap of 5% with catch up via relets only is:

2-years: £1.16 billion
5-years: £3.25 billion
40-years: £29 billion

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

Some of our members have made a case for exempting supported housing due to the higher costs involved in providing such accommodation. Over recent years there has been a reduction in supported accommodation and therefore much needed provision nationally, due to other changes to funding systems. Those projects remaining operate on tight margins and a cap would impose severe strain and potentially make them unviable, in either the short, medium or long term, leading to hardship for individuals in increased costs for the authority in seeking to meet needs.