Social housing rent policy

NHF briefing

September 2024

Summary

- The discounted rents that social housing tenants pay saves them £9bn each year compared to the amount they would pay in the private rented sector, and saves government £6bn in lower benefit payments
- Long term certainty over rental income is vital to rebuilding housing associations' financial capacity to invest in existing and new homes. Social housing rents fell by 15% in real terms between 2015 and 2024
- In the October budget and spending review we are calling for:
  - A ten year commitment to annual CPI+1% rent increases
  - The reintroduction of a convergence mechanism into rent policy, to ensure that residents are paying the rent set out by the social rent formula.
- Our analysis shows that under this policy, social rents would remain affordable for low income working households on average and in every local authority area. After 10 years they would still be lower than rents were in 2015, in real terms.

Background

Housing associations exist to provide safe, good quality homes that are affordable for people in housing need. **The discounted rents that social housing tenants pay save them £9bn each year**, compared to the amount residents would pay if they were renting in the private rented sector. This also saves the government £6bn per year in lower benefit payments.

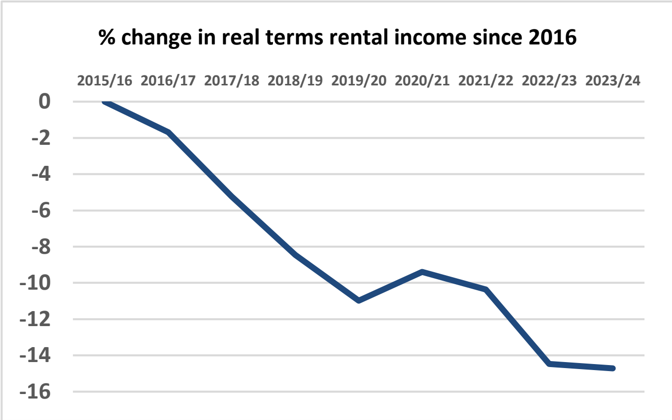
Income from social housing rents underpins housing associations' investment in existing homes and services for residents, and their ability to borrow to build new social homes. Housing associations received £15.2bn in rent in 2022/23, 63% of their total turnover[1].

[1] RSH Global Accounts 2022/23 – (£15.2bn in rental income, as a % of £24.3bn turnover)

This allows housing associations to provide services to tenants and pays for day-to-day repairs and improvements to their homes but will not be enough to cover the additional investment required to decarbonise and substantially improve the quality of all today's social homes over the next thirty years.

Social housing rents fell by 14.7% in real terms between 2016 and 2024, as a result of government policy changes.

This means **housing associations received almost £3bn less in rental income last year** than if rents had remained at their 2015 level in real terms.



Future rent policy

In future, social housing rent policy should deliver affordability for residents, while maximising investment in existing and new homes by providing long term certainty, confidence, and simplicity. The key elements of this policy should include:

Long term certainty on rental income so that housing associations can borrow to invest in new and existing homes. As well as giving boards the confidence to sign off long term investment plans and take on large new developments, it gives rating agencies and lenders confidence in the sector's financial resilience, improving the cost and quantity of debt available to the sector. **A ten year rent settlement** would give housing associations and lenders the confidence to invest long term in new and existing homes, with long term borrowing underpinned by long term certainty on future rental income.

Annual permitted rent increases of CPI+1% for ten years to restore real terms rents towards their 2015 level, and ensure that housing associations can continue to meet the substantial costs of investing in the safety, quality and decarbonisation of existing homes while also building new social homes.

The link to inflation is crucial to ensure that rising costs are matched by rising rents. The additional one percent will gradually restore real terms rents to their previous level and is vital for funding the investment needed in new and existing homes. With rent increases of CPI or less, some organisations will severely struggle to fund the investment needed in their existing homes, and the whole sectors' financial capacity to build new homes will be severely constrained.

Reintroduction of Labour's convergence policy to allow rents that are below social rent to gradually catch back up. The social rent formula is designed to set a level of rent for each home that is affordable, taking into account local incomes and rental prices. However in practice many households pay less than the rent set by the formula, for a range of historical reasons, and most recently because of the impact of the 7% rent cap on rises for existing tenants in 2023/24.

The result of this is that tenants can be paying very different rents even though they live in identical, next door properties. This is inconsistent, arguably unfair, and hard to administer and explain to tenants. Labour's convergence policy was introduced in 2000 to address this problem, and it allowed rents to gradually catch back up to the level set by the formula, up until its abolition from rent policy in 2015.

Reintroducing convergence would unlock additional financial capacity to invest in existing homes and services, while ensuring that no-one pays more in rent than the social rent formula determines is appropriate for their home.

This gap would have to be made up gradually so that it is fair and affordable for existing tenants. The previous convergence policy allowed for an additional £2/week rent increase on top of the usual annual increase, for tenants whose rents were below the social rent level. We suggest a similar approach is adopted again, to ensure that residents only experience a small increase in their rent above standard annual uplift.

This convergence policy should become a permanent feature of rent policy. This would give housing associations the flexibility to hold back rents to support affordability in some years, but catch back up slowly in future.

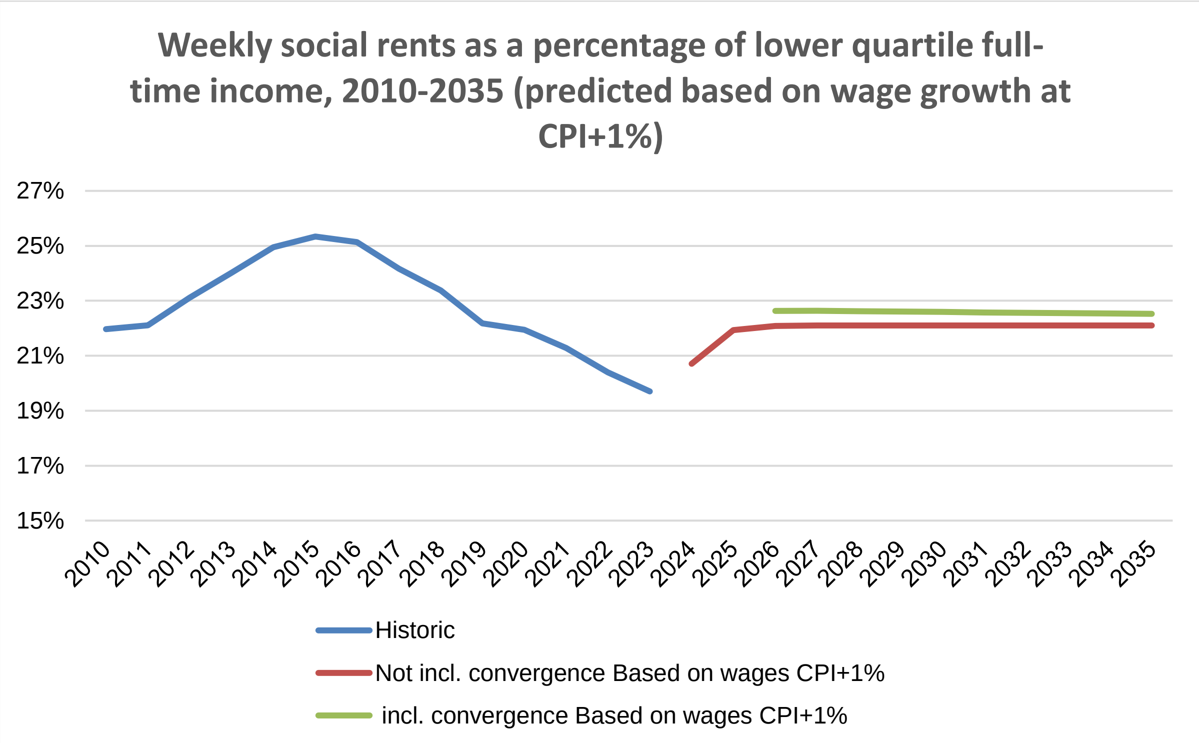
Finally, there are ways to make rent policy more resilient to economic shocks including high inflation – for example by introducing a cap on maximum percentage annual rent increases for existing tenants alongside a clear convergence mechanism to catch back up in future years.

Affordability of rent changes

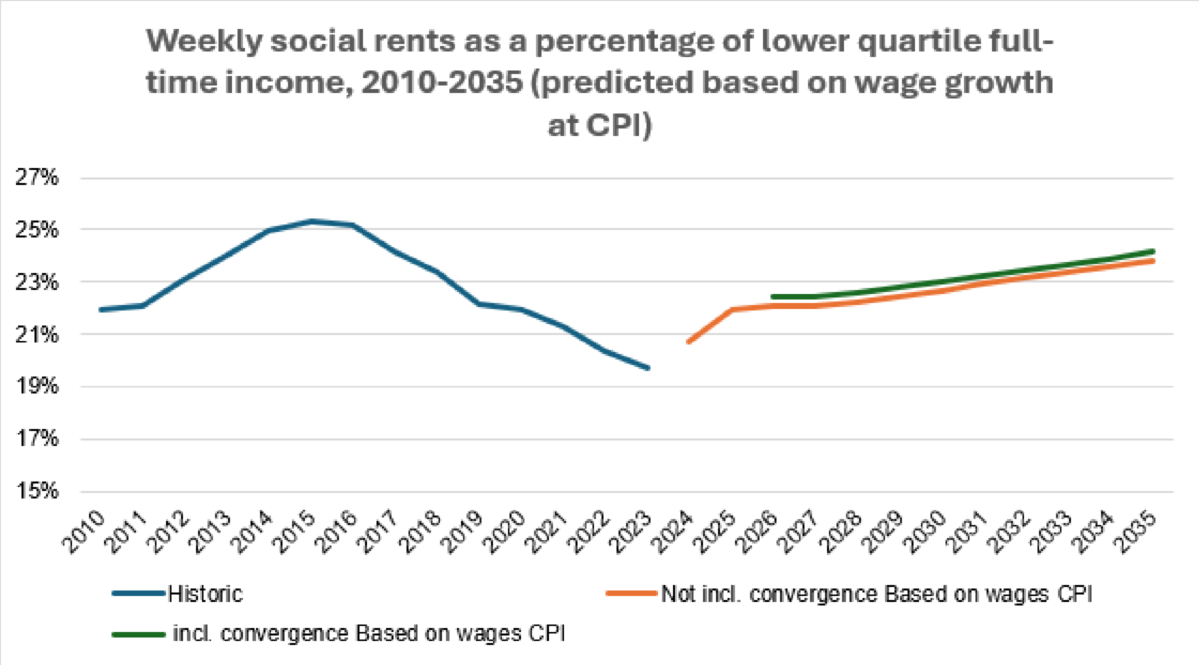
Social housing exists to provide homes that people can afford, so it's vital that social rents remain affordable.

For the third of tenants who pay their own rent, the best measure of affordability is rent as a proportion of income. Rent is often considered unaffordable if it comprises more than one third of income.

We compare average weekly social rent to lower quartile full time weekly earnings, looking at how it has changed in recent years and projecting this measure forward based on rent increases of CPI+1% and the reintroduction of a convergence mechanism into rent policy.



On this measure, ten years of rent increases of CPI+1%, including convergence, would still leave rents more affordable than they were throughout much of the 2010s, assuming wage growth trends just above inflation (as it did in the decades leading up to the financial crisis).



Even assuming that wages only grow with inflation, affordability doesn't pass its 2015 peak within ten years, and rent as a proportion of wages reaches 25% - still well below the commonly-used 33% threshold.

For almost all the households who rely on housing benefit and Universal Credit to pay their rent, their benefit payments will increase as their rent payment increases. The exception is households affected by the Household Benefit Cap, and by the bedroom tax. Some of these households have been able to access additional support through Discretionary Housing Payments. But both these policies should be scrapped or amended so that households receiving benefits are always able to pay their rent in full.

The analysis above looks at the national average, but the outcome remains the same when looking at a more granular level, by local authority, and when considering households on the very lowest wages – the 10th percentile rather than the 25th.

Affordability of 2 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is affordable (less than 33% of gross wages plus benefits[2])

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	100%	100%

Affordability of 3 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is affordable (less than 33% of gross wages plus benefits)

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	98%	99.3%

[2] "Benefits" here includes universal credit basic allowance and housing element. Child benefit is not included. Assumptions based on a two adult two child household occupying an appropriately sized home, with one income as specified. 2034/35 figures are based on existing thresholds and rates being applied to projected rents and incomes.