

## Briefing:

Social Housing Rents from  
2020/21 - Update

February 2019



## Contents

1.	Background	1
2.	Policy Statement	<b>Error! Bookmark not defined.</b>
	2.1 Regulation and Policy	2
	2.2 Annual Rent Increases	3
	2.3 Social Rent	3
	2.4 Affordable Rent	4
	2.5 Exemption (Exception) for Local Authorities	4
	2.6 Information for Calculating Formula Rents	4
3.	Contact	5

## 1. Background

In the 2013 spending review it was announced that social housing rents would increase by the consumer price index (CPI) + 1%. The Guidance on Rents for Social Housing brought an end to property rent convergence a year earlier than anticipated by the self-financing settlements and as local authorities were moving to formula rents over the restructuring period, before most properties had converged. The revised arrangement was set to run for 10 years (to provide certainty in rents to social landlords) commencing in 2015/16.

The Welfare Reform and Work Act 2016 aimed to reset the levels of rents in the social housing sector, relative to private rents. This involved reducing social and affordable rents in England by 1% a year for 4 years from April 2016.

The Act effectively suspended the previous social rent policy guidance. Instead of ongoing rent increases of CPI + 1%, landlords of social housing were expected to reduce rents by 1% from 2015/16 levels each year for a period of four years (to 2019/20). Brandon Lewis, Housing Minister at the time advised the Commons Select Committee that he assumed reversion to previous guidance (CPI + 1%) from 2020/21. This was confirmed by Theresa May in October 2017 for the period up to 2024/25.

Despite the end to the process of convergence, formulaic calculations for each property were prescribed in the regulations alongside provision, where rent convergence had not been reached, for new tenancies to be let at formula rent.

Provision is also made for exceptions (dwelling type) and exemptions (provider) in the regulations. Exceptions for 2016/17 included sheltered homes and hostels, where it is assumed that the formula rent will increase by CPI + 1% regardless of whether the actual rents are increased at this rate. Some properties were excepted throughout the rent reduction period including PFI properties and domestic violence refuge accommodation.

Consultation on rent policy from 2020 was issued in September 2018.

## 2. Government Response to Consultation

In February 2019 the Government published its response to the feedback received following the consultation of its rent proposals. The response was accompanied by a Rent Policy Statement and a Direction on the Rent Standard 2019 (being the statutory instrument requiring the regulator of social housing to set a Rent Standard that complies with the policy).

The Policy Statement on rents for social housing largely confirms the changes proposed in the Consultation Paper and included in the Draft Policy Statement. There is some additional explanation in relation to three areas:

- The application of the rent flexibility level
- The “2020 limit” i.e. the base rent for applying the 2020/21 increase
- Clarification of the restrictions on rent increases for affordable housing re-letting.

For ease of reference the key changes to previous arrangements are set out below

### 2.1 Regulation and Policy

The significant change to previous regulation is the inclusion of local authority housing within the rent standard issued by the Regulator of Social Housing. The regulator is required by direction from the MHCLG to have regard to the Policy Statement.

The direction applies to low cost rental accommodation only as defined in the Housing and Regeneration Act 2008 (it does not apply to low cost home ownership).

For social rents, the principle of formula rents (to reflect size, value and location of a property) continues to be applied.

Landlords can use affordable rents (up to 80% of market levels including service charges) for new property supported by grant or retained receipts. They can also charge market rent for high income households (income > £60,000 pa) but these social tenants are outside the scope of this consultation.

The policy does not apply to

- Shared ownership low cost rental accommodation
- Intermediate rent accommodation
- Specialised supported housing
- Relevant local authority accommodation (see section 2.5 below)
- Student accommodation
- PFI social housing
- Temporary social housing
- Care homes

With the introduction of Universal Credit, not all local authority tenants will be covered by housing benefit subsidy payments payable to the local authority, so the Limit Rent (which limits the amount of housing benefit subsidy payable) will not control welfare costs. It is anticipated that the DWP will amend the Housing Benefit Subsidy Order to remove rent rebate subsidy limitation.

## 2.2 Flexibility Level

Landlords have flexibility to set rents for new social rent tenancies at 5% above formula rent (10% for supported housing, defined as that made available with support, to those requiring support and in accommodation designed or designated for support). Wording in the previous Draft Rent Policy Statement referred to using the flexibility in a “balanced way”. This has been replaced by the following

*“If applying this flexibility, providers should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.”*

This change removes any previous notion that where the flexibility is used to increase rents for some properties a similar number should have reduced rents.

## 2.3 Annual Rent Increases

A CPI + 1% ceiling to rent increases from 2020/21 is confirmed with special arrangements for those providers who do not reset rents from April or where the property is re-let during the final year of reductions (referred to in the Rent Policy Statement as the ‘2020 limit’).

The baseline rent, for the purpose of applying the 2020/21 increase, in these two circumstances is:

- Where rents are not reset in April - the average weekly rent in the final year of rent reductions
- Where property is re-let during the final year - the average weekly rent in the final year since the accommodation was last re-let.

## 2.4 Social Rent

Where rents exceed the formula rent plus the flexibility, maximum increases will be CPI only until the rent is within the flexibility level and when re-let reduced to formula plus flexibility (subject to rent caps).

A registered provider may re-value where it has carried out major works that materially affect the value of the property (thus impacting on the formula rent). Although it is anticipated that this is only likely to arise in exceptional circumstances and not to reflect repairs, maintenance or kitchen / bathroom replacements.

Social rent cannot be converted to other rents unless there is specific agreement to do so or if the property is let to a high income social tenant.

## 2.5 Affordable Rent

CPI + 1% increases for existing tenants and not more than 80% of market rent for new tenancies.

Affordable rent cannot be converted to other rents unless the property is let to a high income social tenant.

## 2.6 Exemption (Exception) for Local Authorities

Exception is included for the categories shown in 1 above which, are covered by the existing Rent Regulations except for the new category of 'relevant local authority accommodation'.

This new category applies if the Secretary of State has agreed that it would be inappropriate to apply government rent policy to the accommodation because this would cause the authority unavoidable and serious financial difficulty. The process for application will be set out separately by MHCLG.

## 2.7 Information for Calculating Formula Rents

There are no changes to the mechanism for calculating formula rents.

The policy statement confirms:

- increases in the formula rent of 0.9% as a one-off exception for supported housing in 2016/17 with subsequent reductions of 1% until 2019/20.
- CPI + 1% increases for other exceptions including domestic violence refuge accommodation to 2020.
- (formula) rent caps for 2019/20 as follows:

Number of bedrooms	Rent cap
1 and bedsits	£141.43
2	£149.74
3	£158.06
4	£166.37
5	£174.69
6 or more	£183.00

The policy is to increase these caps by CPI + 1.5% in line with the previous arrangements for (formula) rent caps. Caps for 2019/20 are frozen at 2015/16 levels.

## 3. Contact

If you would like any further information or have any questions in relation to this briefing, please contact:

Jeremy Cookson E: [jeremy.cookson@capita.co.uk](mailto:jeremy.cookson@capita.co.uk) T: 07967 720857 or

Ian Green E: [ian.green@capita.co.uk](mailto:ian.green@capita.co.uk) T: 07973 397774 or

Keith Finch E: [keith.finch@capita.co.uk](mailto:keith.finch@capita.co.uk) T: 07717 583727