Social housing rents in 2023

Network Homes' response

About Network Homes

Network Homes is a housing association with a proud history of providing affordable homes for people going back over 45 years. We own and manage over 21,000 homes predominantly in London and Hertfordshire. **We believe good homes make everything possible**.

https://www.networkhomes.org.uk/about-us/

Summary

The rising cost of living is making the lives of households around the country much more difficult, including households in social rented housing, who have some of the lowest incomes. There are many who need support with housing costs, but a blunt, percentage-based cap is the wrong way to go about this.

A further cap on rents without compensation to social landlords would be a mistake

Because we reinvest 100% of the income we collect into existing and new affordable homes, a rent cap in the absence of measures to compensate social landlords would mean we would have to spend significantly less on one or more of these items:

- Planned/major maintenance, including building safety remediation
- Day to day repairs
- Housing management
- Building homes for those in housing need.

The inflationary environment – where many of our costs are going up by much more than the headline rate of inflation – already makes it harder to carry these out. And due to the rising cost of living they are arguably even more important to be carried out responsively and effectively.

If government does impose a cap, it should be more flexible

The proposals in the consultation document wouldn't help the tenants who need the most help. The majority of the incidence of the cap wouldn't benefit tenants at all, because most social tenants are supported to pay their rent by government and will be left with the same residual income regardless. And by definition, percentage-based rent increases mean the tenants who are already paying the highest rents have the highest and least affordable rent increases. If rents are to be capped then it would be better to cap each social landlord's rents in aggregate (for example at one of the suggested levels) and leave it to organisations to ensure that the protection is applied to tenants who need it most.

If government does impose a cap, it should be funded

If a cap is implemented, it should be funded by way of much higher grant rates (paid for by the savings government will make on welfare spending, and therefore revenue-neutral) and by a return to rent convergence.

Depending on the final policy design, 66% of the reduction in revenue could be offset by a £4.6bn increase in the Affordable Homes Programme, and around 10-30% could be paid for by increasing rents for tenants paying below target rent levels.

If government does not impose a cap, housing associations will be free to support residents in more targeted ways

There are many better and more targeted options housing associations could choose to adopt – for example, a freeze on 3+ bed Affordable Rent homes – which would cost associations orders of magnitude less in lost income and help those most in need far more than government's proposals.

Furthermore, shared ownership households face higher and uncapped rent increases. Any cap on social rents will greatly restrict our ability to mitigate these impacts on the worst affected shared owners.

Responses to questions posed

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?

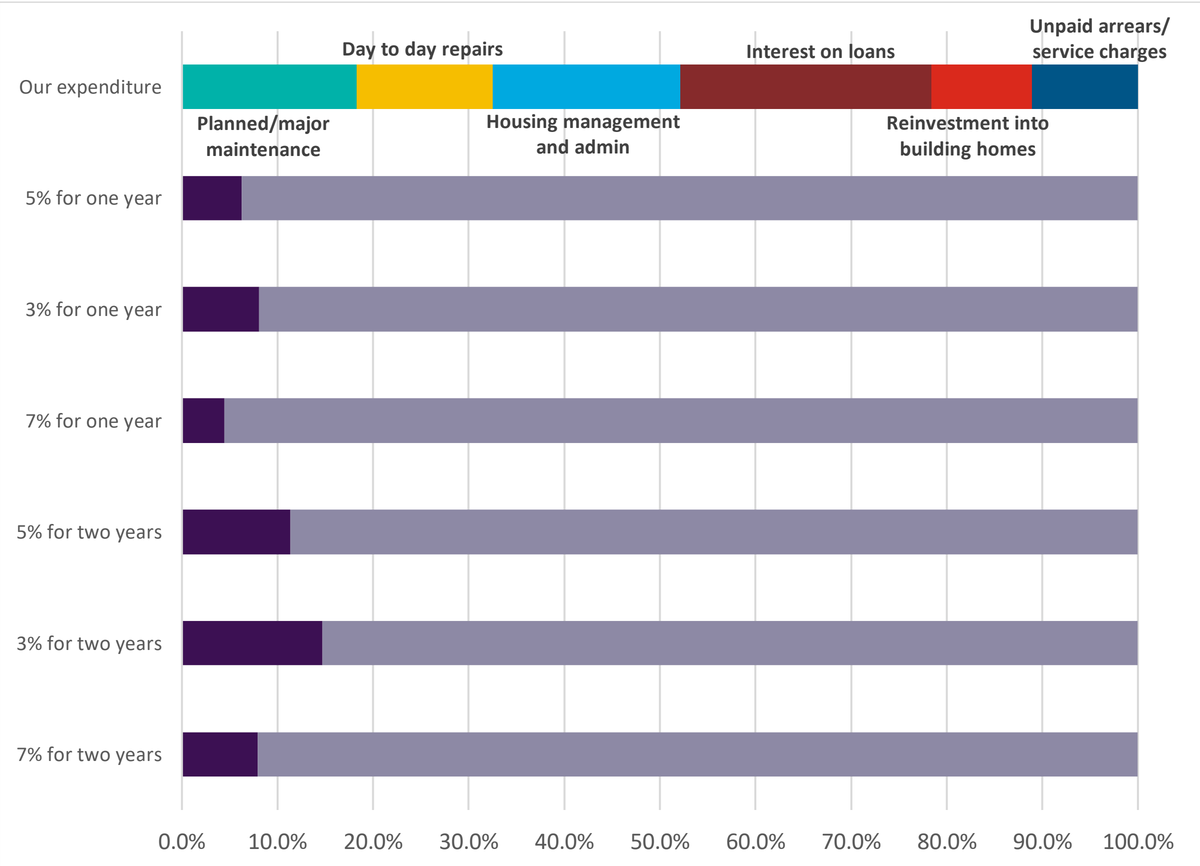
No.

There can be no doubt that the rising cost of living necessitates government intervention on many fronts to help struggling households. However, a blanket cap on rents in social housing would do more harm than good.

The cost of maintenance and construction are rising at a higher rate than the headline rate of inflation, and in some areas they are rising substantially faster. Any cap beyond that which already is imposed on rent increases will amount to a real-terms cut to social landlords' budgets. 100% of the money housing associations collect in rent is reinvested into existing homes or new affordable homes, so any real-terms cut to our budget will result in less money being spent on existing or new homes.

Figure 1 below shows what we spend money on, and how much yearly income we would lose relative to increasing rents by CPI+1%. They are shown together so the scale of the cut is clear.

Figure 1: Network's loss of annual income in 2024/25, shown alongside what we spend money on[1]



[1] The purple line represents Network's income from social rented tenures, with the darker segment showing the income that we would no longer collect in that year if various cap scenarios were implemented. The expenditure proportions are taken from 2021/22.

If government caps rent increases in one of the ways proposed in the consultation and depicted in this chart, the real-terms reduction in our income will have to be taken from one or more of the expenditure items on the top row. Because we reinvest 100% of our income, there is nowhere else for the consequences of a rent cap to fall.

We consider each of these items in more detail below.

Planned/major maintenance

Forcing housing associations to spend less on planned maintenance is incompatible with government's stated aim of making homes across the country safer. Network has set aside around £100m for ongoing remediation works to its buildings on an accelerated timescale. To do this, we have deferred some cyclical maintenance across our housing stock. If we cut funding on this item, it would mean building safety works would take substantially longer than currently planned.

Forcing housing associations to spend less on planned maintenance is also incompatible with government's stated aim reaching net zero carbon emissions by 2050. To achieve this, housing associations need to invest substantially, and government's existing £3.8bn Social Housing Decarbonisation Fund can cover at best around one tenth of this bill. If housing associations are forced to cut spending on this item, a net zero housing sector will be even further out of reach.

Day to day repairs

Forcing housing associations to spend less on repairs is incompatible with government's stated aim of ensuring tenants have a good quality home in good repair. Repairs cost inflation is at 14%, substantially higher than the headline rate of inflation. This means that even a CPI+1% rent increase will not cover the costs housing associations are experiencing. It's not easy to see how we could let the incidence of any cut fall on repair costs, given they are a fundamental duty of landlords, and we will already likely have to do less of other things to fund them.

Housing management and administration

Forcing housing associations to spend less on housing management is incompatible with government's stated aim of improving housing associations' compliance with the consumer standards. Government's move toward regulating consumer standards more pro-actively to drive up compliance in the wake (among other things) of high profile news coverage of the conditions some tenants face is laudable, and Network is well placed to meet the increased scrutiny. But cutting funding to housing management and administration – which includes general overhead organisational costs – will make this substantially harder to do.

We already report on Value for Money to the regulator and take ongoing steps to be as efficient as possible. Indeed, at Network many of the cost savings we've achieved in the last few years have fallen in this area. Cutting funding on this item beyond cuts already implemented would mean that the housing service we provide to residents would get worse, at a time when government is explicitly asking that it gets better.

Interest on loans and reinvestment into building new homes[2]

Forcing housing associations to spend less on building new homes is incompatible with government's stated aim of building more homes. There are two ways Network funds any new development scheme: borrowing, and internal subsidy (shown in dark and light red respectively). In general, the borrowing costs ensure homes get built, and the internal subsidy ensures as many as possible are as affordable as possible, given viability constraints. Our cost of borrowing is likely to increase significantly over the medium term in line with movements in the markets.

There 250,000 households in London, and 1.2m in England, waiting for social housing. While private developers will tend to minimise the new social homes in their schemes as far as possible, housing associations use their surplus to maximise the delivery of affordable homes. And even apart from the households desperately in need of social rent homes, it is widely accepted that there is a housing affordability crisis, and that part of the solution is increasing the number of homes we build. If housing associations cut funding to this area, fewer people in housing need will be given the social homes they desperately need, and fewer new social and market homes will be built.

As is noted in government's Impact Assessment, 66% of the benefit of a rent cap will not be felt by tenants at all, but rather government, in the form of lower welfare spending. In the even a cap is introduced, this saving should be reinvested into social housing, in the form of a £4.6bn additional injection into the Affordable Homes Programme.

Uncollected arrears and service charges

Expecting housing associations to recover greater proportions of rents and service charges is unrealistic given the current rising cost of living, and in any case, if achieved, would be incompatible with government's stated aim of protecting social housing residents against rising housing costs. The majority of this expenditure comes from services that we pay for but do not collect from tenants. Some also comes from rent arrears and service charge arrears that we write off due to it not being realistic that they will be collected. The soaring energy bills tenants face, coupled with the inadequate levels of welfare benefits claimants receive, already put great pressure on tenants and landlords alike. In the current climate, this expenditure item cannot reasonably be expected to fall.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

If a rent ceiling were not imposed, housing associations would be free to consider much more targeted rent caps, rent freezes or funding for households in need, which would have significantly less impact on aggregate rent revenue, but which would help tenants far more. For example:

- A freeze on Affordable Rent 3+ bed homes. This would mean that those with the least affordable homes, and those most likely to be affected by the benefit cap and already facing shortfalls in their rent, would not pay any increase at all. Analysis we did last when considering how to increase rents in 2022/23 showed that this would cost Network £4.8m in the long run – a tiny fraction of the hundreds of millions of pounds that proposals in government's consultation would cost.

[2] These two items are taken together, because the loans we take out are almost exclusively to fund new development.

- A cap based on absolute increase in rents rather than percentage increases. This too would help those households whose rents would rise by huge amounts even should government's 5% cap be implemented.

Furthermore, shared ownership rents, which rise based on RPI rather than the lower CPI, will be hit far harder than social rents. The protections that we will be able to offer to shared owners facing rent increases will be dependent on the implementation of government's proposals.

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)?

No.

Even the highest proposed cap of 7% for one year would lose Network around £250m over the duration of our 30 year business plan. This is more than double what we have set aside for building safety remediation. Even a cap at this level would mean we would have to weigh up various options, all of which are bad:

- We may have to pause all new development
- We may have to take substantially longer to complete necessary building safety works
- We may have to push back cyclical maintenance again (we had already taken the necessary decision to defer much of our planned maintenance beyond our mid-2010s expectations in order to fund building safety works).

One of, or some combination of, these options would be extraordinarily detrimental to the same tenants that government is hoping to support with the cap in the first place. So it follows that if a cap is implemented, it should be commensurately beneficial to the tenants it helps.

A percentage-based cap on rent increases is *not* sufficiently beneficial to tenants to warrant the harm this would cause. As government notes in the Impact Assessment, most tenants (around two thirds at Network) have their rent fully or partially covered by housing benefit or Universal Credit. For these tenants, they will benefit either very little or not at all from a cap.

The ones who would benefit – those who do not rely on welfare benefits – are precisely the tenants who are *least* in need of government's support as all are already earning more than government deems the minimum necessary to live upon (the level set in benefits/Universal Credit).

More targeted support could alleviate far more hardship than a percentage-based cap, which is a very blunt instrument. For example, removing the benefit cap would support households who are already being denied enough money to prevent deprivation.

Or, if government is not minded to do this, a rent increase cap based on the aggregate rent revenue a given organisation has would be more appropriate. For example, Network collects £96m in social rents each year. If the cap applied to this number, and capped Network's total rent roll at 5% or 7% higher than this, we would be free to flexibly target support at households who need it most.

The tenants on high Affordable Rents (who are on average in more need than social rent tenants, both because of the additional rent they pay, and because on average they moved into social housing more recently at a time when the threshold of need was higher) are in greater need of protection from high rent increases than lower rent tenants are. Affordable Rent tenants are also more likely to face higher shortfalls in their welfare payments due to the benefit cap, and even the ones who pay their rent without government support would be hit harder than other social tenants by any blanket percentage-based rent increase.

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)?

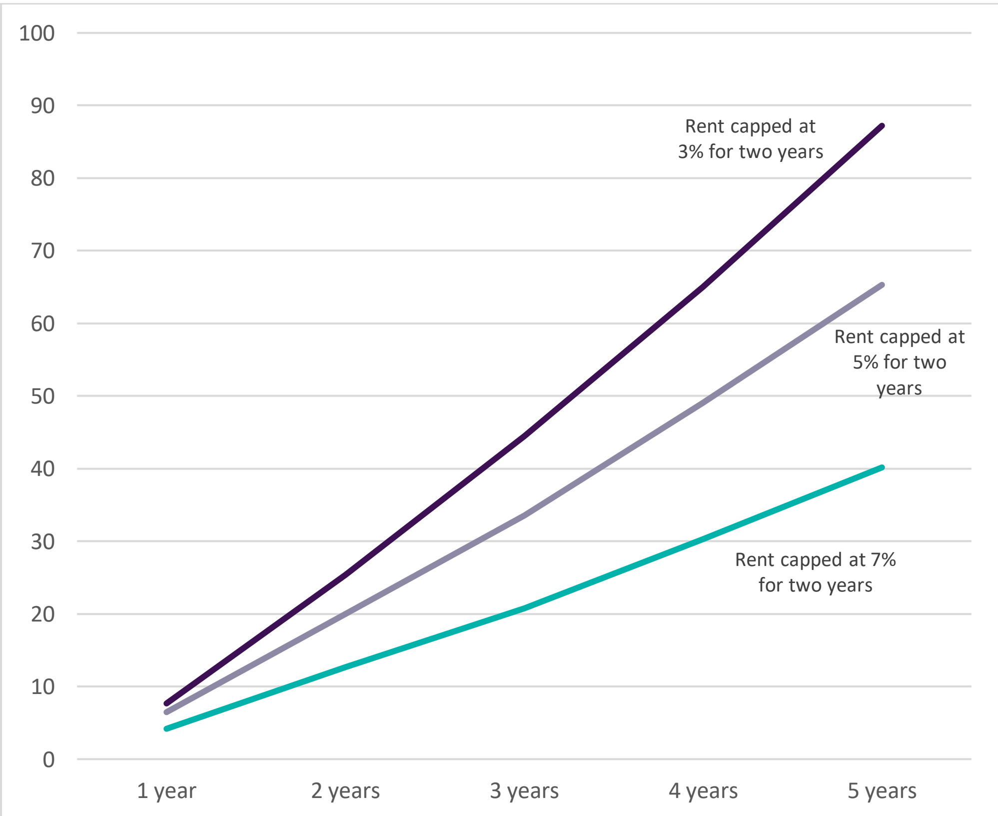
If a ceiling is introduced, it should not apply for more than one year. If further protection is needed to households from 1 April 2024 there is plenty of time for government to develop much better mechanisms to provide this.

As shown in Figures 2 and 3 below, a 5% cap for two consecutive years would cost Network around £780m over the duration of our business plan. Due to the very high inflation on repair costs we are facing as an organisation, the scale of this loss would challenge our ability to carry out even our statutory duties as a landlord, like carrying out responsive repairs.

Figure 2: Network's cumulative loss of income based on various cap scenarios (table)

Cumulative loss (£m)	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**10 years**	**30 years**
Rent capped at 3% for two years	7.67	25.3	44.5	65.0	87.2	215	835
Rent capped at 5% for two years	6.47	20.0	33.5	49.0	65.3	160	779
Rent capped at 7% for two years	4.18	12.7	20.7	30.3	40.2	96.3	537

Figure 3: Network's cumulative loss (£m) of income based on various cap scenarios (graph)



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?

Yes, if a ceiling is introduced.

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?

Yes.

Social rent homes that are below target rent should be exempt from any cap imposed. Due to the introduction of Affordable rents and the early ending of the rent convergence policy, many tenants living in similar homes to one another pay an extremely wide range of rents. Exempting any below-target rents from the cap, or setting them a higher cap so that their 2023 rent would be in line with what they would have paid had they been paying target rent in 2022, would go some way to making the submarket rent system fairer.

Separately, and for the same reasons, government should implement a return to rent convergence, so that over time, those whose rents are far below target can catch up to other rents paid by newer social rent tenants.

The early end to rent convergence, as of today, costs Network around £3m a year. Removing this loss of income over time could go some way towards offsetting the enormous additional loss of income government is proposing to impose on housing associations. Depending on the spend at which landlords were able to converge rents, this could pay for 10-30% of the income lost by imposing a 5% cap.

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