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December 2024

## Future social housing rent policy

Consultation response from The Housing Forum

### **Response submitted by:**

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### **About The Housing Forum**

The Housing Forum is the UK's cross-sector, industry-wide organisation that represents the entire housing supply chain. Our growing membership drawn from over 150 organisations across the public and private sectors and includes local authorities, housing associations, housebuilders, architects and manufacturers. All share our determination to drive quality in the design, construction and decarbonisation of UK homes. They have a commitment to partnership working and share in our vision of 'A Quality Home for All'.

In order to achieve this, we have advocate for policy change needed for everyone to live in a good quality, sustainable and affordable home. Our key [Housing Solutions](#) set out how we think this can be achieved.

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# Response to questions

## Question 1 - Do you agree with our proposal that the government should set a rent policy that will remain in place for at least the next 5 years, from 1 April 2026 to 31 March 2031?

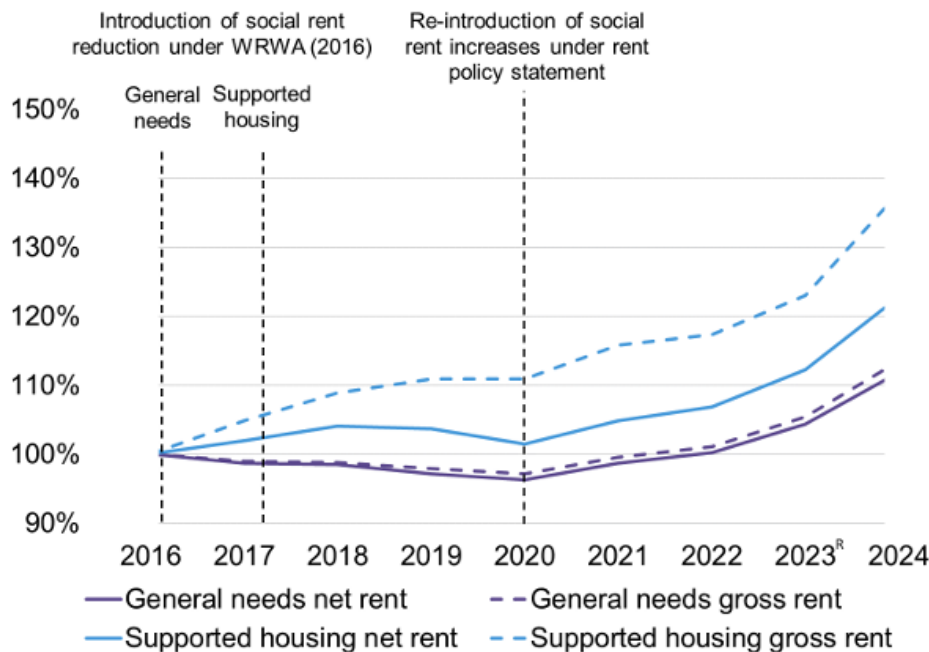
Yes. The Housing Forum’s members welcome the proposal and the predictability this gives them of rental income during the coming years. A longer-term settlement would be very much preferable.

Social rents have fallen significantly in real terms since 2016, **If rents had risen in line with inflation (and therefore broadly in line with landlords’ operating expenses, excluding exceptional items such as cladding removal), they would have gone up by 33% between 2016 and 2024. Instead – as shown below - social rents went up by only 10% over this period – an enormous real-terms cut, which has caused huge difficulties to the finances of social landlords, and reduced the funding available to build new homes.**

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### Indexed net and gross rent change 2016 to 2024 (2016=100)



Source: ONS 2023 Private registered provider social housing stock in England rents profile 2023-24 [https://assets.publishing.service.gov.uk/media/671f8fdd4fdbe4653d6ecb5a/2024\\_PRP\\_RENTS\\_-\\_briefing-notes\\_FINAL\\_V1.0.pdf](https://assets.publishing.service.gov.uk/media/671f8fdd4fdbe4653d6ecb5a/2024_PRP_RENTS_-_briefing-notes_FINAL_V1.0.pdf)

General needs social rents are the primary source of income for Registered Providers and for the Housing Revenue Accounts of councils. It is vital that a future rent settlement addresses this shortfall in rental income and allows social landlords the certainty over future income to invest.

## Question 2 - What impact would a longer settlement have, and what alternative length should a settlement be? (e.g. 7 years / 10 years?)

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A longer settlement would be welcomed by the sector, as it would give more certainty around future rent increases, increasing the capacity of the sector to invest. A 10-year settlement would be preferable. This would recognise the increasing pressures of managing an aging stock portfolio, meeting new regulatory costs, and investment in net zero. Investment in energy efficiency and driving up standards for tenants should also drive a rise in the quality of social housing.

**Question 3 - Would a rolling settlement of 5 years (where the 6th year is set 5 years in advance) provide additional stability or certainty?**

A rolling settlement would provide more certainty than fixed periods of five years, as there would always be at least five years' predictability. This would also prevent a general election from causing a hiatus in rent policy, if a fixed term policy is due to end around the time of an election.

**Question 4 - What impact would these alternative lengths of rent settlement have on providers' willingness and ability to invest in new and existing homes?**

Longer rent settlements are viewed positively by institutions lending to the social housing sector as they mean the income from housing is more predictable. This makes a real and substantial increase in the availability of private finance to support building new homes.

Increasing the value of rents in real terms is also essential if the sector is to fully fulfil its role in developing new affordable housing as part of the Government's ambition of 1.5 million new homes.

**Question 5 – Are there rent policy measures that would provide confidence in the stability of our policy in the event of an inflationary spike?**

We understand the need to avoid very high rent increases in a situation where inflation is significantly higher than wage growth. However, a one-off below-inflation increase – as happened in 2023 - creates a permanent real-terms decrease in the rental income for landlords. A preferable option would be for government to allow housing association boards to take their own view on the level of increases to impose in any one year. If a rent increase is below inflation one year, then it should be acceptable to increase rents at higher rates (such as CPI\_2%, or a flat £3 a week extra) for the following year(s), until the rents are back at the rate they would have been if the CPI+1% increase had been permitted ever year. This would prevent a one-off inflationary spike having a permanent scarring effect on housing association finances.

The benefit system should offer social tenants good protection against any big increases to rents, related to a sudden inflationary spike. It does do this well for most tenants – however those affected by the benefit cap (larger families in particular) – are not protected. Increasing the benefit cap fully in line with inflation is vital to avoid this hole in the welfare safety net getting any wider. If this was done, then increasing rents with inflation would be less problematic.

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## **Question 6 - Are there other steps that the government should take to build confidence in the stability of its rent policy?**

There is concern that a government cannot tie the hands of a future government, which might decide to renege on the agreement – as happened in 2015. To avoid this, the government should:

- Seek cross-party agreement for rent settlements
- Work closely between departments, including Treasury and the DWP, to ensure a cross-departmental commitment to rent policy.
- Consider making rent increase contractual for new tenancies – as they are already for shared ownership.

## **Question 7 - Do you agree with our proposal that rents should be permitted to increase by up to CPI+1% per annum?**

Increases of at CPI+1% would be welcome as a long-term commitment to stability and predictability of income. However, there is still a need for a “catch-up” increase to put rents back where they would have been had it not been for the four year 1% cuts to rent in the 2016-20 period, and one-off below inflation increase in 2023 (see answer to Q1, and chart within it) and to complete the process of moving social rents to target rents. Allowing social rents to increase by a modest amount above CPI+1% would help the rents cover the cost of maintaining the homes and help build capacity within the sector, supporting the Government’s ambitions of making prioritising social rent over ‘Affordable Rent’.

The lack of financial capacity in the affordable housing sector reduces their ability to invest in much-needed affordable housing, including social rented homes. It also reduces capacity across the whole of the housing sector and supply chain who rely on social landlords’ capacity to build new homes as part of the wider housing ecosystem. For instance, the lack of housing associations wanting to take on S106 sites has been highlighted recently, by our own research<sup>1</sup> and that of the HBF<sup>2</sup>.

## **Question 8 - What do you consider would be the impact of our proposed rent policy on affordability for rent payers and the willingness and ability of registered providers to invest in new and existing homes over the next 5 years?**

Around half of social tenants pay the rent themselves, and they would see a small increase each year to real-terms rents under the proposed rent policy. However, they are still paying significantly less in real terms than they were in 2015, when the CPI+1% formula was first diverged from. Lower income tenants are usually eligible for housing benefit or Universal Credit, which will increase in line with any increase in rents. This means that the disposable incomes of most low-income social tenants are unaffected by the rent level. There are a few exceptions to this:

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<sup>1</sup> <https://housingforum.org.uk/reports/event-reports/why-are-social-landlords-losing-interest-in-section-106-sites-and-what-can-we-do-about-it-round-table-discussion-19-november-2024/>

<sup>2</sup> [17,000 Affordable Homes stalled by lack of bids from Housing Associations](#)

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- Households affected by the benefit cap would see no increase in their benefit payment, and would therefore be likely to struggle with any rent increase. It is essential that the government increases the benefit cap in line with inflation, to prevent it having a worsening impact on extreme poverty year by year.
- Tenants affected by the Removal of the Spare Room Subsidy ('bedroom tax') would see the shortfall in their benefit eligibility increase by CPI+1%.

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A longer-term rent settlement will make a real and significant difference to the ability of RPs to invest in new homes, because they will be more able to attract private finance. For-profit RPs are a growing part of the sector and particularly important in development because they are not constrained by the costs of maintaining existing stock as many older RPs are. They rely on being able to attract institutional investors, who require certainty of future rents.

**Question 9 - Do you have views on other measures, outside rent policy, that could help to rebuild registered providers' capacity to invest in new and existing homes?**

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Our Registered Provider and council members face growing financial pressures, and most are therefore reducing, pausing or ceasing their housebuilding activities currently. Pressures come from higher interest rates, rising costs of construction and of repair and refurbishment of existing homes, an aging housing stock with growing need for repair, retrofitting and improving the housing stock to reduce energy use, greater regulation of RPs and building safety costs.

There also remain costs that cannot feasibly be paid for out of rents, such as the costs of decarbonisation and remediation relating to building safety. It is essential that government is clear on what should be funded from rents, with clear funding sources identified for other spending requirements.

There are several other measures the Government could take to help rebuild RPs' capacity to invest in new and existing homes:

- Ensure that funding for the next Affordable Homes Programme needs to be confirmed soon, to cover both development and regeneration. Grant requirements need to be flexible.
- Funding to fully cover the costs of building safety remediation would help free up landlords' own funds to invest in new and existing homes.
- Full flexibility over the use of Right to Buy receipts and the ability to combine them with grant can help development to go ahead when it might otherwise not.
- A larger increase in the Public Works Loan Board rate would support councils to build new homes.
- Resourcing to cover the costs of implementing Awaab's law is needed and to drive up the quality of homes to meet the new Decent Homes Standard.
- The subsidy provided by central government to support councils with the costs of temporary accommodation is badly in need of updating as it is pegged to 2011 LHA rates. This puts pressure on council budgets, preventing

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any investment in new homes. A wholesale review of LHA rates would help providers who let market-rate housing, as well as reducing pressures on councils' budgets for temporary accommodation.

- Continued funding will be required in order to reach net zero – the current programme is targeting an EPC C for social housing, but the large majority of homes will still be with gas boilers, so funding will be needed if this is to change. This cannot come from rents if they remain at current rates, increasing only at CPI+1%.
- A review of the insurance market for buildings owned by social landlords would be useful – costs have risen hugely for reasons that are not fully understood. A review should consider the potential role of regulation and state underwriting of costs in bringing insurance costs down.

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**Question 10 - Do you have any comments on the detail of the draft direction and policy statement that are not covered by your responses to the previous questions?**

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The Housing Forum's members welcome certainty of future rent increases. However, we also believe that wider reform of social rents is necessary in the longer term in order to reduce unfairness in the current system, and help leverage in much-needed finance for retrofitting and improving the energy efficiency of social homes. We would make three key points:

**Rent convergence needs to continue to allow social rents to finish aligning with target rents.** Many of our members continue to feel the consequences of rents having never aligned with target rents. Allowing a gradual increase until target rents are reached would help increase fairness between tenants and improve put landlords on a more secure financial footing.

**Social rents and 'Affordable Rents' should be aligned.** These two "products" are in fact the same product – often identical homes – with identical service levels, and they have in effect been allocated to the same group of tenants. This means that similar tenants in identical homes can be paying very different rents for exactly the same service. Aligning social rents and Affordable Rents into a single rent regime would remove this unfairness.

**Social rents should be reformed to reflect the energy efficiency of the home.** We have written a report setting out how rents could be reformed so that the average level of rent plus bills being paid by tenants is the same for those in the least energy-efficient homes as in the most energy-efficient. This would be fairer for tenants, and would also help social landlords to obtain private finance to (part) fund retrofitting work in anticipation of being able to charge slightly higher rents for more energy efficient homes.

These measures would help to build a stronger, healthier social housing sector with the capacity to build deliver the government's ambition of the biggest boost to social housing in a generation, and to build the homes of the future.

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