

November 2016

Member consultation:

Rent freedom

The future of housing association rents

Summary of key points:

- Housing associations are ambitious socially driven organisations currently exploring new ways of delivering their core purpose within a challenging and dynamic operating environment.
- Rental income is central to the business model of housing associations. Having control over their main income stream will allow housing associations to plan long-term, better manage risk and make the most effective use of their assets.
- As independent businesses with a social purpose, housing association boards should be responsible for setting their organisation's rent policy. They understand the local markets in which they operate and are best placed to balance tenant affordability and fairness with long-term business continuity and strategic delivery.
- This consultation seeks members' views on the future of housing association rents.

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1. Introduction

Housing associations are united by a single purpose – to ensure everyone in the country has the opportunity to live in a quality home that they can afford. We have a strong track record of providing a quality service to our customers and delivering new supply, even when times are tough.

Housing associations' most significant source of income is rent, but continuing government involvement in the way in which we are able to set our rents acts as a limit on our ambitions. The freedom for housing associations to set their own rents will enable the sector to build on our strong offer to new and existing customers, managing and building more great homes for more people.

Housing associations are independent businesses with a social purpose - a fact clearly recognised by the Government, which has been keen to push through legislation to deregulate the sector and remove housing association debt from the public balance sheet. Against this backdrop, now is the time to develop a realistic alternative to the current system and put housing associations in control of their businesses. This document outlines the case we can make to the Government for rent freedom, and seeks members' views to inform and add weight to our arguments.

2. Executive summary

Housing associations continue to strengthen the quality of their offer to their existing customers while expanding their offer to meet the needs of an ever widening cross-section of society. Housing associations provide homes across tenures from social rent to market sale. The sector is viewed as a key partner to the Government in achieving local and national policy objectives. Enabling housing association boards to agree and implement a rent policy that works for them would improve their ability to make long term, strategic decisions to the benefit of their customers and the taxpayer.

The case for rent freedom is based upon two core principles:

Control – rental income is central to the business plan and underpins all housing association activity, from day-to-day housing management to raising private debt in order to build more homes. Giving boards control of rent setting improves their ability to plan for the future, increases their agility and room for manoeuvre in response to changes to the operating environment, and ensures an appropriate balance between accountability and responsibility. In addition, boards and executive teams will be able to better deploy internal resources by

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operating a consistent rent regime which is tailored to the needs of the organisation and its tenants.

Fairness – the rents paid by tenants in social/affordable housing are currently divorced from their household incomes and have limited relevance to the local housing market. This creates anomalies and inequalities whereby historic rent regimes dictate the rent levels for specific properties, meaning that some are considerably below an affordable level for the area, while others are too high and thus entrench welfare dependency. Board control would allow individual housing associations to develop rent policies which reflect their tenant profile and operating areas, while remaining consistent with their social purpose and charitable objectives.

In addition to these core principles we recognise the need to respond to specific political priorities for the Government, and thus the case we make will need to demonstrate:

- how housing-related welfare costs for housing association tenants will remain comparable with current levels
- the governance arrangements and safeguards in place to ensure rent policies are fair and equitable for tenants
- the efficient and effective use of rental income by housing associations.

3. Why rent freedom?

Board responsibility and control

Housing association boards are custodians of the organisation's long-term social mission and must balance strategic, operational and risk-management responsibilities. The Social Housing Regulator (the Regulator) expects boards to maintain governance arrangements which are sufficiently robust and effective so as to safeguard the financial viability of the organisation in the future. Boards are therefore accountable – to the Regulator, to their lenders, and to the organisation's tenants and staff.

Under the existing rent regime(s) there is a problematic gap between board accountability and responsibility. Boards do not have responsibility for setting their organisation's rent policies, and do not therefore have responsibility for their organisation's core income stream.

The rigidity of the existing rent regime, which stipulates the rents that must be charged for existing homes and dictates how rents must be calculated for new homes, combined with the board responsibility gap identified above, means that the rent regime has a disproportionately significant impact on longer term strategy, business plan objectives and organisational ambitions. Boards must attempt to set the direction for their organisation in the knowledge that

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the rents they can charge for their core product are inflexible, in some cases arbitrary, and always subject to direct government policy change. The combination of a defined rent regime and welfare reform (affecting tenants' ability to pay the rent) means that rental income has been ascending the risk register for a number of years.

The rent regime can have a depressing influence on development capacity, ambition and business plan objectives, as prudent risk management requires boards to carry out scenario planning and stress-testing in which their ability to respond to changing market conditions is significantly constrained. In addition, the need to meet the requirements of numerous rent regimes concurrently means that internal resources are not used as efficiently or effectively as they might be.

Rent freedom would mean that boards have responsibility for setting and implementing a rent policy for the organisation. This policy would reflect the organisation's social mission, risk appetite, geographic location, tenant profile and any other relevant factors. Boards would have greater control over their core income stream, and be better able to respond to changing market conditions in order to maintain the financial viability of the organisation whilst meeting their stated mission.

Fairness and affordability for tenants

As [the Federation's work with the Joseph Rowntree Foundation \(JRF\) and Savills](#) has demonstrated, the existing rent regime fails to link housing to the labour market or rents to the ability of people on low incomes to afford them, and is limiting the degree to which housing associations can fulfil their social mission.

In addition, mechanisms whereby the Government requires specific rent levels to be applied (e.g. Affordable Rents) in exchange for capital investment in new supply, without any changes to eligibility criteria or allocation policies, can result in households being allocated properties which they cannot afford.

The range of historical rent regimes in operation makes it difficult for housing associations to be clear and transparent in communicating to tenants and other stakeholders why different rents are charged for different properties.

The disconnect between housing costs, local earnings and household income is problematic for a number of reasons:

- welfare dependency is entrenched where households eligible for sub-market rented housing are unable to afford the rents and must therefore rely on Housing Benefit to pay for their housing costs

- the Housing Benefit bill increases as more tenants in sub-market housing require help with their housing costs
- the lack of flexibility hinders the ability of landlords to encourage genuinely mixed communities and allocate housing based on a wide range of household characteristics
- scarce resources are not allocated as efficiently as they could be, as some tenants may be able to afford higher rents, while others would benefit from their rent being lowered.

Rent freedom would allow boards to re-establish the link between housing costs, local labour markets and household affordability, where they believe that doing so would allow them to better meet their social mission and would be an effective use of the organisation's resources. A more flexible and tailored rent policy could be transformative for low income households as their housing costs would be more responsive to the local labour market and their household income.

Question 1 – do you agree that housing association boards should be responsible for setting and implementing a rent policy for the organisation (aka rent freedom)?

Question 2 – do you agree that the two principles identified are the fundamental drivers of rent freedom? If not, please identify which would be more appropriate or relevant for your organisation.

Question 3 – in the longer term do you think rent freedom would allow your organisation to better meet its objectives? Please explain your answer.

4. How would it work?

Our proposal is for the Government to commit to the existing rent regime coming to an end on 31 March 2020, allowing rent freedom to begin on 1 April 2020. This timescale gives housing association boards and the Government sufficient time to plan and develop robust policies for implementation. In addition, it would remove the current uncertainty surrounding the future of housing association rents post-2020.

Question 4 – do you agree with our proposed timescales for rent freedom implementation?

Board ownership

As with all major policy decisions, housing association boards would be required to formally approve a rent policy for their organisation. We envisage that this would be based upon research carried out between now and 2020 into the specific characteristics of their tenants and operating areas, thus allowing them to make an informed decision on how to best meet the needs of their tenants and the objectives of the organisation. It would be up to boards to decide

the specifics of the policy development process, but this would likely involve tenant engagement, participation and review.

Transparent policy, clearly communicated

The final agreed policy would need to be clearly communicated to key stakeholders, including tenants, lenders, the Regulator, local MPs and councillors, and be easily accessible in a range of formats for anyone else wishing to understand the organisation's approach to rent setting. Boards may decide to stipulate a period of time after which the policy will be reviewed in order to understand impact and efficacy.

Housing-related welfare costs

One of the drivers for rent freedom is the desire to reduce welfare dependency by re-establishing the link between housing costs, local labour markets and household incomes. Therefore, as a principle, we would not expect housing associations to implement policies which increase the welfare costs for existing claimants or increase the number of tenants requiring support for their housing costs.

[Work carried out by the JRF, Savills and the Federation](#) has demonstrated that a new approach to rents could actually reduce overall housing benefit expenditure by improving affordability for low income households and then reducing their reliance on benefits.

In addition, a number of government policies since 2010 have served to limit the amount of housing-related support households can claim, and these would remain in place.

An alternative option is for individual housing associations to be given a defined total 'rent envelope' within which they can flex rents according to their own policies.

Question 5 – what is your view on how to best control housing-related welfare costs if rent freedom is granted? How would you could make use of the freedom without increasing welfare costs?

Tenant involvement and scrutiny

As stated above, boards may choose to directly involve tenants in the rent policy development process, either through their established tenant scrutiny channels or via new bespoke arrangements. Tenant scrutiny could play an important role in developing a rent system that balances the needs of the organisation and tenants.

Question 6 – how would you involve tenants in the development and scrutiny of a new rent policy for your organisation?

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Efficient and well run organisations

The Government is likely to seek assurances that housing associations are efficient and well run in return for being granted rent freedom. It is therefore important for us to consider how best these assurances can be given. One option is for rent freedom to be tied to the existing regulatory regime – e.g. the Governance and Financial Viability ratings. Alternatively, more bespoke arrangements could be devised between individual housing associations and the Government.

Question 7 – what is your view on offering assurances to the Government in exchange for rent freedom? What assurances would you recommend to demonstrate organisational efficiency and good governance?

5. What is the benefit to national and local government?

Greater board control leading to greater impact

Empowering boards to set rent policies for their organisation will increase their ability to target their resources in a strategic and consistent way and ensure that their core income stream continues to support the objectives in the business plan. Housing associations are about delivery and impact, whether that is the supply of new housing, the provision of care and support services, or the regeneration of economically inactive areas. Rent freedom will allow organisations to own their future and maximise their impact.

Less poverty, less welfare

National and local government have a strategic interest in increasing prosperity. Research shows that housing costs are an increasing pressure on household budgets and, in many cases, are a key driver of in-work poverty. Allowing housing associations to implement their own rent policies will create the space for bespoke, flexible and appropriate sub-market rents to be introduced which are far more likely to meet the needs of an increasingly diverse customer group.

Devolution and localism

National government has recognised the diverse challenges facing different cities and regions in England, and the potential for local government to deliver improved outcomes, through the devolution agenda and the repatriation of powers to local government structures. Rent freedom is consistent with this direction of travel as it allows local solutions to be developed by local stakeholders in recognition of the characteristics of local markets and people. If rent freedom

were delivered there would be significant scope for housing associations to work alongside combined authorities and new mayors to implement rent policies to meet local need.

Question 8 – do you agree with the benefits to national and local government identified above? Please explain your answer.

Question 9 – please explain how you believe rent freedom would allow you to deliver benefits to key stakeholders.

Question 10 – how do you anticipate your political stakeholders will respond to the idea of rent freedom? If possible, please identify specific challenges they might pose and possible solutions to them.

6. Future rent models

A number of organisations have given thought to how sub-market rents for low income households could be improved to deliver better outcomes for tenants, alongside financial viability for the landlord and the welfare system. This is positive as it means there is an existing body of work available for housing associations to draw upon in the design and implementation of their own rent policies. For example:

JRF, Savills and the National Housing Federation – Living Rent

Living Rent is an alternative sub-marketed rented product, designed to help address the affordability gap for low income households. The reference point for rents is the Annual Survey of Hours and Earnings (ASHE) lower quartile earnings for a specific locality, thus re-establishing the link between housing costs and local labour markets. Rents are then set at 28% of the net local earnings figure and appropriately adjusted for property size. This means that the rent charged is far more responsive to household type, location and the local labour market.

Initial research suggests that Living Rents are typically significantly lower than Affordable Rents and thus far more affordable for low income tenants. Depending on overall tenant profile and business plan requirements, their introduction could therefore reduce the housing-related welfare bill.

London Living Rent

The Mayor of London has introduced a new sub-market rental product aimed at middle income households. This also links rents to local earnings by setting them at one third of median gross

household incomes for the borough. Additional variation can be applied depending on house prices at a ward level and the size of the property.

Dolphin Living – New Era Estate

Dolphin Living introduced the option for a new personalised rent regime for existing tenants on the New Era Estate in Hackney in April 2016. The personalised rent uses JRF's research into living costs to create a formula which indicates how much the household can afford to pay and sets the rent accordingly. The formula considers the household's net income and the JRF's [Minimum Income Standard](#) and sets the rent according to the gap (or lack of) between the two.

Question 11 – Have you considered what a future rent policy might look like for your organisation? If so, please summarise its key features.

7. Consultation questions

Question 1 - do you agree that housing association boards should be responsible for setting and implementing a rent policy for the organisation?

Question 2 – do you agree that the two principles identified are the fundamental drivers of rent freedom? If not, please identify which would be more appropriate or relevant for your organisation.

Question 3 – in the longer term do you think rent freedom would allow your organisation to better meet its objectives? Please explain your answer.

Question 4 – do you agree with our proposed timescales for rent freedom implementation?

Question 5 – what is your view on how to best control housing-related welfare costs if rent freedom is granted? Are you confident that you could make use of the freedom without increasing welfare costs? If so, what evidence do you have for this?

Question 6 – how would you involve tenants in the development and scrutiny of a new rent policy for your organisation?

Question 7 – what is your view on offering assurances to the Government in exchange for rent freedom? What assurances would you recommend to demonstrate organisational efficiency and good governance?

Question 8 – do you agree with the benefits to national and local government identified? Please explain your answer.

Question 9 – please explain how you believe rent freedom would allow you to deliver benefits to key stakeholders.

Question 10 – how do you anticipate your political stakeholders will respond to the idea of rent freedom? If possible, please identify specific challenges they might pose and possible solutions to them.

Question 11 – Have you considered what a future rent policy might look like for your organisation? If so, please summarise its key features.

8. How to respond

Please respond via email to: policy@housing.org.uk

The deadline for response is **Friday 13 January 2017**

If you have any queries or questions in the meantime please contact nick.yandle@housing.org.uk