



Department for Communities and Local Government

Matthew Warburton
Policy Adviser
Association of Retained Council Housing

2 July 2013

Via email

Dear Matthew,

I am writing to set out some further details on our recent announcement on future rent policy for social housing. This is partly in response to queries we have been receiving on whether we intend to continue with rent convergence policy beyond 2014/15. We are writing in parallel to the CIH, NHF, LGA and the National Federation of ALMOs.

We announced in the Spending Round that rents in the social sector will increase by CPI + 1% annually from 2015/16 to 2024/25, delivering on the pledge we made at Budget.

This commitment to a long-term rent policy is a recognition by Government that a certain and stable investment climate is important for investors and landlords. It is designed to support providers in securing private finance, which will continue to play a vital role in funding new affordable housing. It should also help to provide a stable context within which providers can maximise value for money, including through active asset management. And it should give providers the long-term certainty and stability they need to deliver good services for their tenants.

In switching from the Retail Price Index to the Consumer Price Index, we hope to put rents onto a more stable footing. We are taking this action following the announcement from the National Statistician that the formula used to produce the Retail Price Index does not meet international standards.

There has been some speculation that the new formula will lead to lower rents than the current formula. This will depend on the level of future inflation under the two measures. Over the last twelve months, RPI has been on average 0.5% higher than CPI – the latest figures show a 0.4% gap – suggesting the formula should give broadly the same rent change in the short-term. In the long-run, the difference between RPI and CPI is more uncertain, and will obviously vary year-on-year.

Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014-15 – and the policy costings published by the Office for Budget Responsibility are based on that assumption. So when we say rent increases of up to CPI + 1% from 2015/16 onwards, that is what we mean.

We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost 15 years – this is a significant period of time for landlords to make full use of the rent flexibilities the Government has provided, and most have done so.

We will set out details on limit rents for local authorities in 2014/15 in due course.

In coming to a decision on our future rent policy, we have struck a balance between protecting tenants – ensuring rents remain affordable – and giving social landlords the income they need to invest in new housing (helping more people in housing need) and provide good services to their tenants. We think CPI + 1% strikes the right balance and represents a good deal for both landlords and tenants.

Our policy is intended to ensure that all tenants, in future, see their rents increase on the same basis. We think it is fair, transparent, and will be easily understood by tenants. It will also provide tenants and landlords with stability – which should allow landlords to lever in further investment, in order to improve, renovate and build more housing.

We will of course consult on the new rent policy, including proposals for ending convergence. We will set out further details on our proposals at that point.

Do please let me know if you would like to discuss any of this further.

Paul Downie
Deputy Director
Affordable Housing Management and Standards