## DRAFT

## ARCH response to CLG consultation paper

## Rents for Social Housing from 2015-16

ARCH represents councils which own housing and manage it directly. We currently have 64 members which own more than 600,000 homes. We welcome this opportunity to respond to the Government’s proposals for social rents from 2015/16.

***Question 1: What are your views on the Government’s proposed policy on social rents from 2015-16?***

We support the principle that there should be a consistent national framework for setting social housing rents which applies equally to councils and to private registered providers. The current formula provides such a framework and should continue. Rent convergence – to achieve the important policy objective that tenants should pay similar rents for similar properties regardless of landlord – was and remains an important part of this framework, and we see no good reason for abandoning it at this time.

It is also important that councils have local discretion to depart from the national framework to reflect particular local circumstances or policies. Thus we welcome the fact that the Government’s guidance on rents policy is non-statutory and that it will remain so. While councils must have regard to it, they are free to adopt variant local policies if they see fit.

***Question 2: Should the rent caps be removed? If you are a landlord, how (if at all) do the caps impact on you currently?***

We have not received any comments from member authorities on the current impact of the rents caps. However, we see them as ineffective (given the non-statutory nature of the guidance) and therefore unnecessary feature of current policy, and would have no objection to their removal.

***Question 3: Do you agree with the move from basic rent increases of RPI + 0.5% to CPI + 1% (for social rent and affordable rent)?***

Self-financing was a major – and welcome –reform of council housing finance, intended to enable councils to plan with confidence for the long-term future of their housing. Most councils with housing took on additional debt which they are expected to service in addition to ensuring that their homes are kept in good repair and maintained to an adequate standard for the next 30 years. The self-financing valuation assumed that rents would increase by RPI + ½ % plus, where necessary, an allowance of £2 per week until convergence had been achieved, even if after 2015-16. This was spelt out in *Self-financing: planning the transition*, issued by CLG in July 2011, which added the words “Government does not have any plans to change the national rent policy set out above.”

The Government now proposes – less than two years after the introduction of self-financing – to make significant reductions in the amount of income councils can expect from 2015-16 onwards. This is both unexpected, given the assurances made in the self-financing documentation, and undermines the policy aim behind self-financing of providing a platform from which councils can plan for the long term. Councils have planned and begun to invest on the basis underlying the self-financing settlement; it is not reasonable for Government to now declare that councils cannot now rely on the income which underpins those investment decisions.

While we understand the Government’s reasons for replacing RPI by CPI as the basis for calculating rent increases from 2015-16, ONS forecasts suggest that over the next few years, CPI +1% will average around 0.9% less than RPI + 1/2%. This change already puts downward pressure on rents before the effect of ending convergence is considered.

We object strongly to the proposal to end provision for rent convergence from 2015-16, both to the substance of the proposal and the manner in which it was announced. Unlike the switch from RPI to CPI, the Government’s intention to end convergence was not mentioned in the Chancellor’s Budget statement, nor in any of the supporting documentation, thus denying Parliament the opportunity to consider or debate it. Yet it was, if anything, the more unexpected shift in policy. In the February 2011 CLG document *implementing self-financing for council housing*, there is an explicit acknowledgement that the £2 limit will prevent some councils converging to formula by 2015/16, and this was taken into account in the self-financing valuation. The document continues with an exhortation to councils not to increase rents by more than the £2 limit to reach convergence more quickly. Now it is proposed to penalise councils which followed this advice. Our estimate – based on the self-financing model – of the impact of this u-turn by the Government is a loss of rent income of around £50 million in 2015-16, £30 million in £2016-17 and £13 million in 2017-18 The cumulative impact over the HRA business plan period of 30 years is a loss of well over £2 billion in rent income compared with the basis on which self-financing was introduced.

The impact of these changes is not evenly distributed. For many councils the rent losses are small, but for a few they are very substantial. We note that the consultation paper includes provision for housing associations whose finances are particularly hard-hit by the end of convergence to seek time-limited waivers from the Regulator. We do not understand why no similar recourse is proposed for councils similarly affected.

***Policy on rents for social tenants with high incomes***

Some councils are likely to take up the opportunity to charge higher rents to tenants with particularly high incomes. Many do not wish to, either because they object in principle, or because, given the small number of their tenants likely to be affected, they believe the administrative costs of operating such a scheme are likely to far outweigh the additional income or other benefits it will generate. We therefore believe it is essential that councils retain the discretion whether to operate such a policy. This point applies particularly strongly to the first stage of policy implementation – during which councils will lack powers to require tenants to provide information about their incomes – but will remain true even after the Government takes the opportunity to provide such powers.

***Question4: Do you agree with the definition of “household” proposed?***

***Question 5: Do you agree with the definition of “income” proposed?***

***Question 6: In particular, should capital be included, and, if so, how?***

***Question 7: Do you agree with the income period proposed?***

We agree with the principle that the policy should, as far as possible, be simple and simple to understand. The proposed definitions of “household” and “income” meet this requirement, although, as a result, they have effects that some may regard as unfair.

The proposal to base decisions on whether a tenant may be charged a higher rent in a given rent year on their taxable income in the tax year two years previously creates many difficulties. The most obvious is that their current income may be significantly less, either below the £60,000 threshold, or insufficient to enable them to afford the higher rent.

We would argue that, while it may be helpful for Government to specify a national policy on this matter, individual councils should have the discretion to depart from it if local circumstances or policies make this reasonable. This should include discretion to vary the application of the policy and the rents chargeable to tenants to whom it applies. It may also be sensible to allow landlords to depart from the policy in individual cases where it would be appropriate to do so – such as in the example given where a tenant’s income was formerly above the threshold but is now well below it.

***Question 8: What are your views on the proposed self-declaration approach?***

We acknowledge the simplicity of the proposal to make high-earning tenants responsible for declaring their income, as compared with the alternative of providing landlords with general powers to require tenants to provide information on income. However, there may well be difficulties in securing compliance. We look forward to commenting further when the Government is able to offer more detail on the drafting of the proposed legislation.