

How to implement rent convergence



Response of the Association of Retained Council Housing

About ARCH

ARCH (Association of Retained Council Housing) is an association of councils in England that have retained ownership and management of their council homes. We aim to get the best deal for councils and their tenants. 143 local authorities own and manage over 1.4 million homes, and we are here to make sure that a positive future for council housing is secured.

Introduction

In our submission to the 2024 consultation on future social rent policy, we argued:

The principle that should underpin future social housing rent policy is that social rents should be **fair, predictable and adequate**. They must be sufficient to cover the full costs of the landlord maintaining and – as policy demands – improving the stock of existing housing for the whole of its useful life. There must be reasonable certainty about rents for at least the next ten years to enable providers to plan major repairs and improvements efficiently and build new homes. At the same time, they must be affordable to tenants, fairly reflecting the relative size, quality and location of their homes.

We argued for the reintroduction of rent convergence both because it is necessary to bring HRAs back into balance and also on the ground of fairness:

We support the principles underlying the social rent policy introduced by the Labour Government in 2001, and its ambition to bring rents for social housing into line with common principles expressed in a rent formula aiming to ensure that tenants could expect to pay similar rents for similar properties, regardless of who is their landlord, and that rents should strike a balance between affordability and property values.

To support our case, we commissioned research from Savills which estimated that rent increases limited to CPI + 1% alone over 10 years would be barely sufficient to bring cumulative HRA income and expenditure into balance by 2036/37, and leave a shortfall of £8 bn by the end of 2029/30 that would need to be addressed.

We are grateful that the Government has accepted the case for a 10-year rent settlement based on CPI + 1% plus an allowance for convergence, and, with national partners, have commissioned new research from Savills to estimate the impact of the convergence options proposed in the consultation paper.

Savills' full analysis is available [here](#). The main findings for local authorities are summarised below.

Convergence at £1/week	Convergence at £2/week
Would result in rents within 84p a week of convergence with average formula rents by 2035/36.	Would result in rents within 13p a week of convergence with average formula rents by 2035/36.
Would deliver £262m in-year additional rent income from convergence by 2035/36.	Would deliver £361m in-year additional rent income from convergence by 2035/36
Cumulative additional rent income over 10 years: £1.863bn.	Cumulative additional rent income over 10 years: £3.107bn.
Around 9,994 additional homes if 70% of additional rent income from convergence is spent on new build.	Around 18,561 additional homes if 70% of additional rent income from convergence is spent on new build.

Estimates of the number of additional new homes that could be funded from additional rent income from convergence are difficult to make for two reasons:

1. Uncertainty about future new build costs, which have been running ahead of general inflation, and details of the new Social and Affordable Homes Programme.
2. Uncertainty about future levels of necessary investment in the existing housing stock arising from Decent Homes 2 and MEES, which are the subject of separate consultations, as well as the costs of compliance with the new Building Safety regime.

What is more certain is that many local authorities will face acute difficulties in the next few years in meeting already-known expenditure needs, including the costs of bringing the whole of their stock up to the current Decent Homes Standard, from rent income alone. Whatever policy on convergence is adopted, its benefits will only accrue gradually – Savills’ modelling has used a ten-year timeframe. We hope and expect to pursue solutions to the immediate challenges in further discussions with Government over the coming months.

Question 1: At what level should Social Rent convergence be permitted?

The Savills research estimates that, at a national level, £2 a week brings HRAs into cumulative surplus by 2034/25 whilst £1 a week would leave the national HRA in deficit after 10 years. The benefits of the additional income yielded by the £2 option are detailed in the answer to the next question. For these reasons we would argue that the annual convergence allowance should be at least £2 a week.

The proposed convergence options set upper limits on the annual rent increase that a local authority can apply. It should not be assumed that all local authorities will always apply the maximum increase, particularly if convergence is implemented not as a one-off time-limited policy but as a permanent feature of the Rent Standard. As the consultation paper states:

“A potential benefit of convergence is that it gives RPs the option to implement lower rent increases for their Social Rent homes in one year with a route to recovering the lost income in subsequent years.

This could make it possible for RPs to respond to their tenants’ short-term cost of living pressures in a way that causes less harm to their financial capacity over the long-term.”



We would expect that, in making their annual rent decisions, local authorities will weigh their expenditure needs against affordability to tenants taking into account the absolute level of rents and the rate of inflation as well as the size of the gap between local average and formula rents. The resulting decision may not always be to impose the maximum increase. On this basis, we would argue that the convergence maximum could safely be increased to £3 a week without significant risk to affordability.

Question 2: How would the benefits for the supply and quality of social and affordable housing differ depending on whether convergence was permitted at £1 or £2?

The Savills research estimates that £1 a week would yield cumulative additional rent income of £1.863 bn over 10 years; while £2 a week would yield £3.107 bn. The impact on new supply obviously depends on how this additional income is split between new supply and investment in the existing stock. On the assumption that 70% is used to fund new supply, Savills estimate that £2 would deliver 18,561 additional new homes, nearly double the 9,994 homes from an allowance of £1 a week.

Question 3: How would the impacts on households differ depending on whether convergence was permitted at £1 or £2?

It must be stressed that convergence only impacts tenants who are paying less than the formula rent for their property. It is important that formula rents remain affordable, taking into account tenants’ incomes, private sector rents and the cost of living more generally. If they do so, the issue for tenants impacted by convergence is not affordability *per se* but the acceptable annual limit to disruption of their budgets. Most local authorities already have arrangements in place to support tenants who are, financially, particularly vulnerable. Accordingly, we argue that, on the assumption that local authorities can be relied on to use their discretion judiciously, a limit of up to £3 a week would not lead to an unacceptable impact on tenants.

Question 4: Should convergence be implemented from 1 April 2026 or from a later date, and what would be the implications of implementing it from a later date?

Convergence should be implemented as soon as practicable, which we believe to mean from 1 April 2026. Delay would only prolong the financial crisis confronting local authority HRAs and the achievement of a fair distribution of rents between new and existing tenants.

Question 5: How long should convergence be in place for, and what would be the implications of different durations of convergence?

In our submission to the 2024 rent policy consultation, we argued:

The inflationary spike of 2023 provides important lessons about how any similar recurrence should be managed. The then Government saw fit to cap rent increases at 7%

in a year when the maximum permitted increase would otherwise have been 11%. We argue below for future rent policy to allow for annual increases of 1% above CPI plus up to an additional £2 a week for those tenants whose rents are below formula until they converge to formula. Since formula rents were increased by CPI + 1% in 2023, while increases for existing tenants were capped at 7%, the great majority of tenants are now paying below-formula rents. The convergence policy we propose would gradually restore rents to where they would have been but for the inflationary spike, while not imposing an excessive rent increase on tenants in any one year. We would argue the same approach should be adopted if Government is minded to cap rent increases below CPI + 1% in any future year.

At present, a local authority which chooses for whatever reason not to impose the maximum permissible rent increase on some or all of its tenants in a given year cannot recoup the loss of income through an additional rent increase in a later year, even if this would not involve taking the rent beyond formula. In 2023 many authorities might have made voluntary decisions not to impose the full CPI + 1% increase on their tenants had not the Government intervened to impose a statutory cap. It is likely that more would have made that choice if they had had the option of allowing rents to converge back to formula in subsequent years, and that, under those circumstances a statutory cap would not have been necessary. Introduction of a convergence policy of this kind would be likely to significantly reduce the need for statutory intervention in the event of a future inflationary spike.

The force of this argument is acknowledged in the current consultation paper in the paragraph quoted in our answer to Question 1 above. For these reasons we would argue that convergence should become a permanent feature of the Rent Standard as the necessary counterpart to the discretion available to landlords not to impose the maximum allowable rent increase in any given year.