

February 2017

Briefing:

Rent freedom: the future of housing association rents

Summary of consultation responses

Summary of key points:

- 75 members replied to the Federation's consultation on the future of housing association rents
- the majority of respondents support the principle of rent freedom
- respondents believe that the key drivers of future rent policy should be control, fairness for tenants and transparency.

Contact name: Enter name here
Job title: Enter email here
Direct line: Enter tel here
Email: Enter email here
info@housing.org.uk
Reference: Enter reference here
www.housing.org.uk

Lion Court
25 Procter Street
London WC1V 6NY

1. Introduction

The National Housing Federation launched a member consultation on the future of housing association rents in November 2016. The consultation document explored the concept of rent freedom, whereby housing association boards are empowered to set the rent policy for their organisation, and asked members to provide feedback on both the principle and more specific topics and issues.

This briefing summarises members' responses and outlines how the Federation will take this work forward.

2. Summary of responses

For each question a headline summary of the response breakdown is provided, alongside bullet points covering the main points raised across the range of responses.

Q1 - Do you agree that housing association boards should be responsible for setting and implementing a rent policy for the organisation (aka rent freedom)?

75 members responded to this question, with a significant majority agreeing with the proposition. **76% agreed** that their board should be responsible for setting and implementing a rent policy for the organisation, whilst 19% agreed but with specific caveats or clarifications.

Agreed:

- greater control over core income to support effective business planning
- boards being best placed to determine how to best meet their social purpose and strategic objectives.

Agreed with caveats/clarifications:

- the administrative challenges of designing and implementing a new rent regime, particularly if it is more tailored to local markets or household incomes
- the applicability of freedom and extent of benefits generated in diverse housing markets
- the need for additional detail and modelling to fully understand impact.

Disagreed:

- rents are complex and potentially contentious and it is therefore better for a national system to be implemented by Government
- some associations may choose to maximise income from high demand areas and lower rents in others, thus increasing competition between providers

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Direct line: Enter tel here
Email: Enter email here
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- very difficult to get Government buy in for the concept of rent freedom.

Q2 - Do you agree that the two principles identified (control and fairness) are the fundamental drivers of rent freedom? If not, please identify which would be more appropriate or relevant to your organisation.

71 members responded to this question, with responses split between **agreement (52%)** and **agreement with additional drivers identified (42%)**. Only those members who did not agree with Q1 responded negatively to Q2.

Agreed:

- particular emphasis on fairness and affordability for tenants
- boards need the tools to respond to a changing environment
- the importance of control is the greater degree of certainty that it provides.

Agreed and identified additional drivers:

- effective use of resources
- independence of the sector and importance to future Office of National Statistics judgement
- long term certainty and predictability
- improve consistency and reduce variation brought about by legacy issues.

Disagreed:

- exposes boards to market risks and potentially introduces significant complexity
- difficult to implement for smaller housing associations and those who operate in lower value areas.

Q3 - In the longer term do you think rent freedom would allow your organisation to better meet its objectives? Please explain your answer.

71 members responded to this question, with a significant majority **(79%) stating that they believed rent freedom would allow them to better meet their objectives in the longer term.**

Yes:

- rent freedom, and therefore greater certainty post-2020, would allow decisions on future development programmes and risk appetite to be taken with more confidence.
- greater flexibility within the rent setting regime would provide the space for organisations to ensure their rents are affordable for tenants and take into account other factors such as energy efficiency and local housing markets.
- potential to unlock greater development capacity through more targeted use of resources and subsidy.
- improved investor and lender confidence in corporate plans

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Direct line: Enter tel here

Email: Enter email here

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- possibility to offer a more nuanced and differentiated offer to tenants based on their current and future circumstances.

Maybe/too early to say:

- for those providers with significant supported and sheltered housing portfolios, rent freedom is secondary to certainty over the future funding model currently under development.
- the Local Housing Allowance (LHA) cap could have a significant impact on the amount of flexibility possible under rent freedom.
- providers operating in lower value/lower demand markets may face downward pressure on rents without scope for additional income generation elsewhere.

No:

- looking forward, the LHA cap is a bigger concern as it is likely to severely constrain rents and therefore capacity in some areas.
- risk that freedom could lead to greater competition and therefore downward pressure on rents, this could in turn reduce development capacity.

Q4 - Do you agree with our proposed timescales for rent freedom implementation?

71 members responded to this question, with **73% agreeing** with our proposed timescale of April 2020 go-live for rent freedom. 15% of respondents recognised the logic of a 2020 start date but argued for either earlier implementation or a pilot in the intervening years in order to better test the concept. 11% disagreed with the proposed timescales and argued that freedom should be implemented earlier.

Agreed:

- April 2020 follows the conclusion of the existing regime and allows sufficient time for research, modelling and other policy development.
- appropriate timing but would need a commitment from Government earlier in order to recast business plans.
- full roll-out in 2020 but a pilot beforehand would be useful to assess impact on welfare, lettings and nominations and development capacity.

Agreed, but would prefer sooner:

- early adoption for new developments, existing homes let at intermediate rents and specific client groups, for example single people under 35 or those seeking employment.
- possibility of earlier adoption by allowing flexibility within an overall -1% rent roll for the organisation.
- earlier adoption could increase development capacity for those who have already identified opportunities for appropriate uplift.

Disagreed:

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 Direct line: Enter tel here
 Email: Enter email here
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- significant concerns that the next General Election is due in 2020 and housing association rents therefore risk becoming politicised.
- the sector has been looking at this issue for some time and should therefore be geared up to implement sooner.

Q5 - 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?

72 members responded to this key question, with **54% stating that welfare costs would remain under control** if rent freedom was implemented. 28% of respondents recognised the difficulty of predicting the impact of rent freedom on welfare costs, and 18% did not believe it is possible to offer any assurances about the impact on welfare.

Confident on welfare:

- focus is on redistributing the rent roll rather than increasing it overall, therefore would expect rents for higher income tenants to increase and lower income tenants to decrease – thus should have a neutral or potentially positive impact on welfare.
- an overall rent envelope for the organisation would prevent significant increases in welfare.
- in some areas the LHA cap will act as a natural limit on welfare exposure.
- not in associations' interests to increase welfare funded rents as this would only increase exposure to welfare reform and place income streams at greater risk in the long term.
- smaller associations could introduce a tailored policy with ability to pay at its core
- increased supply should have a positive impact on welfare spend in the private rented sector, therefore important to adopt a whole system approach to welfare.

Difficult to predict the impact:

- no intention to push tenants further into welfare dependency but difficult to predict wider movements in welfare spend as a range of factors have an impact.
- prepared to commit in principle to not increasing the welfare bill, but difficult to evidence this in practice.
- important to have better data on tenant income in order to ensure rent freedom would be implemented in an appropriate and fair way.

Not possible:

Contact name: Enter name here
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 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
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- welfare costs are outside of housing association control and it is not possible to offer a commitment that welfare spend will not increase.
- The Government must choose whether to prioritise increased affordable housing supply or further short term reductions in housing related welfare.
- Living Rents or other models based on linking rents to incomes will need to be accompanied by an increase in capital funding for new supply if development programmes are to be maintained or expanded.

Q6 - How would you involve tenants in the development and scrutiny of a new rent policy for your organisation?

72 members responded to this question, with **67%** of respondents stating that their **existing tenant involvement and scrutiny functions** would be used to involve tenants in the design, implementation and review of a new rent policy. 25% of respondents identified additional actions they would take to involve tenants in the process, whilst 8% stated that it would not be appropriate for tenants to have active involvement in this area.

Existing structures:

- tenant board members, scrutiny panels and committees.
- inclusion in annual reports to tenants.

New structures/approaches:

- work with other local housing associations to develop county-wide policies to support fairness and consistency.
- consult with people on the housing register and conduct other market testing to assess consumer appetite.
- consult on a new 'contract' with customers - linking service levels to rents
- equality impact assessments.

Not at all:

- limited experience of direct tenant involvement and challenging to include them when they have a clear vested interest in the outcome.
- not a significant issue as the majority of tenants are in receipt of welfare support.

Q7 - What is your view on offering assurances to Government in exchange for rent freedom? What assurances would you recommend to demonstrate organisational efficiency and good governance?

70 members responded to this question, with **54%** of respondents stating that they believed **existing structures, such as the HCA's regulatory framework**, offered sufficient assurance to government. 30% proposed additional assurances

Contact name: Enter name here
 Job title: Enter email here
 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
 Reference: Enter reference here
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which could be offered, and 16% were opposed to assurances being offered in exchange for rent freedom.

Existing structures:

- a sector-wide arrangement based on the Regulator's existing governance, financial viability and value for money scrutiny – updated to take into account rent – would be most appropriate.
- widespread adoption of the Sector Scorecard measures, potentially expanded to include key rent metrics, could add further assurance around value and efficiency.
- very cautious of additional promises made relating to supply or welfare due to the large influence of factors which are outside housing association's control.
- important to note the charitable status of the majority of housing associations and their requirement to set strategies which advance their charitable objectives.
- possible requirement to comply with some form of guidance or Code of Practice around rent setting policy.

Additional assurances:

- specific extension of the value for money standard to include rent policy and outcomes.
- tie rent freedom to the regulatory regime by making G1/V1 a requirement for greater freedoms over rents.
- possible deals to be made around welfare envelope and supply numbers at an organisational level.
- for appeals and consumer protection could link to the Rent Officer Service.

Opposed to assurance offered in exchange:

- restricting overall income or the ability of boards to implement a strategy specific to their organisation would negate the main benefits of rent freedom whilst adding burdensome administrative costs.
- reputational and political risks arising from additional commitments/assurances
- the Government's definition of 'efficiency' may differ from the sector's, and what would happen if rent freedom was tied to G1/V1 and the provider was subsequently downgraded?
- short term assurances are not appropriate given the potentially long term timescales for benefits, however in the longer term there could be a more holistic offer around regeneration and investment.

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Job title: Enter email here
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Email: Enter email here
info@housing.org.uk
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Q8 - Do you agree with the benefits to national and local government identified (greater impact, less welfare, local solutions)? Please explain your answer.

66 members responded to this question, with **64% expressing agreement with the benefits identified**, 30% unsure about the benefits identified, and 6% disagreeing with the proposed benefits to national and local government stakeholders.

Agreed:

- in higher value areas it will be possible to target resources more accurately, thus generating capacity deliver more sub-market housing for those in need of lower rents.
- greater flexibility around rent setting has the potential to reduce welfare dependency amongst housing association tenants.
- consistent with the devolution and localism agenda, and thus benefits will vary depending on local conditions and priorities.
- improve the affordability and demand for hard to let properties, thus making better use of existing housing stock and improving tenancy sustainability.
- likely to lead to greater innovation and communities less defined by economic barriers, with more mixed estates and greater transition between tenures.
- for local government it could improve the ability to meet homelessness duties and reduce reliance on temporary accommodation.
- greater certainty and control leading to more impact and increased supply.

Unsure/mixed:

- broadly agree, but the full impact will depend upon the client group and local market conditions.
- benefits will be limited in challenging operating environments, divergent views on the impact on the overall welfare bill and whether additional supply will be an outcome.
- recognise the value of a more localised approach but concern that within a locality/region political stakeholders would seek convergence/consistency, and thus there is a risk of trading national political control for local political control.
- more research, modelling and testing is required to understand the full implications and any potential benefits.

Disagreed:

- welfare constraints may limit the impact of rent freedom, and any future downward pressure on affordability applied by the welfare system could serve to highlight challenging questions about who can afford to house those most in need, and in what kind of accommodation.

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 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
 Reference: Enter reference here
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- a potentially unintended consequence could be a shift in resources from lower income to higher income areas, increasing regional disparity and leaving some areas further behind.
- risk of greater commercial and market exposure, which could in turn limit impact and delivery if external factors worsen.

Q9 - Please explain how you believe rent freedom would allow you to deliver benefits to key stakeholders.

64 members responded to this question, with **77% explaining how rent freedom would allow them to deliver benefits to key stakeholders**. 17% believed any benefits would be marginal or were unsure of what they would be, and 6% did not believe rent freedom would allow them to deliver benefits to stakeholders.

Clear benefits:

- could support local government to discharge homelessness duties and reduce reliance on Discretionary Housing Payments by increasing the range of affordable housing available.
- more space for innovation and collaboration on areas of joint priority, such as health and social care.
- longer term planning and certainty in support of increased development across a range of tenures, supported by increased lender confidence
- benefits to residents through aligning rents with tenant profile and improving tenancy sustainability.
- greater opportunities to deliver large regeneration projects as freedom would allow rents to be flexed depending on market conditions and local need.
- greater choice and transparency for customers.

Unsure of benefits:

- benefits are unclear, at the margins in the North East tenants might have a more understandable and consistent rent regime.
- could improve housing association's ability to compete with the private rented sector and therefore stabilise some areas suffering from poor quality rented accommodation.
- benefits will vary according to location and stakeholder.

No benefits:

- could constrain future rent increases in low demand areas therefore reducing development capacity and preventing future provision of affordable housing.
- limited evidence available at this stage to fully understand what the impact would be in different markets.

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 Job title: Enter email here
 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
 Reference: Enter reference here
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Q10 - 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.

60 members responded to this question, **53% anticipated that political stakeholders would have a mixed reaction to the idea of rent freedom**, 33% believed the reaction would be positive as long as there was clear communication and genuine consultation, and 13% predicted a negative response.

Mixed reaction:

- nervousness anticipated around key areas such as welfare, affordability and allocations, however confident that assurances could be offered and shared objectives found.
- initial scepticism could be managed by adopting a phased approach, focusing initially on re-lets in order to prove the concept.
- accountability will be an important area of reassurance, particularly for stock transfer housing associations.
- important to improve transparency and demonstrate value in order to build a positive and trusting relationship with the Government.
- important that this issue does not distract from the more pressing need to resolve the LHA cap risk to supported and sheltered housing.

Positive:

- supportive of rent freedom if the case can be made that it will lead to more affordable homes and improvements to existing schemes.
- early consultation at a local and regional level will be important, if the offer to customers is improved and more flexible this will be positively received.
- comfort taken if rents remain within a regulatory framework with the onus on individual associations to be transparent and involve all stakeholders in their policy development and review.
- particularly positive if rent freedom would allow associations to contribute more effectively to particular local priorities, such as single under-35s in the North West.

Negative:

- suspicions about rents increasing across the board. Where local frameworks exist, such as the Sheffield City Region Compact, members may choose to agree/negotiate arrangements at this level.
- primary concern would be affordability and local government would be able to continue to exert influence over rents through the planning system and section 106 agreements.
- concerns around nomination agreements and ability to house the homeless and those most in need.

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 Job title: Enter email here
 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
 Reference: Enter reference here
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Q11 - Have you considered what a future rent policy might look like for your organisation? If so, please summarise its key features.

58 members responded to this question, **52% of respondents identified possible principles for a future rent policy** without being in a position to go into greater detail. 33% had not given a future rent policy any thought and 16% were able to draw on research and/or more solid examples to explain how they would implement a new rent policy.

Possible principles:

- transparency and fairness.
- simple and efficient administration.
- positive impact on those households with the highest needs.
- local/regional approach linked to local markets.
- all residents to have a 'reasonable' standard of living after housing costs.
- different rental products with different eligibility criteria, potentially bands within each product to provide greater flexibility.
- would take into account property size, features and facilities, energy efficiency and household income.
- important to be data driven and based on local information and relevant policies.

No thought yet:

- nothing firm yet, but recognise that anything more variable/responsive is likely to be more expensive to implement.
- importance of conducting research and discussing with board first.
- keen to participate in a pilot to inform future policy development and test key features.

A new rent policy:

- rents linked to average local wages by benchmarking at 33% of a two-person household each earning half the borough median income; or equalise all rents at 65% of market rent.
- all rents published to enable customer choice and comparison and a new policy based on relativity – meaning clear rationale for differences in rents between properties; could be different price points based on the quality of the home or the service received, or a dynamic model whereby rents start low and gradually increase, whilst remaining sub-market
- shaped around key principles: no one refused on the basis of affordability; rents linked to household income and value of the property in the local rental market; rent calculation clear and transparent; new target rent for the property and tenants then banded according to their income and an agreed affordability calculation

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 Job title: Enter email here
 Direct line: Enter tel here
 Email: Enter email here
 info@housing.org.uk
 Reference: Enter reference here
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- local rent based on property type, location and demand, with the option to provide discounts based on tenant affordability and need criteria; some could be sub-social if needed, reassessed annually in accordance with shorter term tenancies, auto-renewal dependent on fulfilling tenancy terms, portfolio of homes to generate predetermined income yield with a mix of rents sufficient to meet the business plan, allocation policies to reflect this portfolio approach.

3. Next steps

The majority of respondents to the consultation agreed with the principles and the direction of travel, but there is considerable variation when it comes to the more detailed issues at hand and how the longer term objectives might best be reached. In recognition of this, the Federation has invited members to apply to join a task and finish group on the future of housing association rents. This group will be representative of the sector in terms of organisation size, location and specialism, and will work closely with Federation staff to develop a policy proposal for housing association rents which is robust and deliverable.

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