**Affordable and sustainable: a new approach to rent setting**

1. **Background**

This policy note sets out views upon the current approach to rent setting and proposals for an alternative approach to rent setting moving forward. The views in this document are informed by:

* 3 rent setting roadshows, attended by 86% of housing associations in Wales.
* Feedback to CHC’s rent setting consultation.
* Discussions at CHC forums including the Financial Services and Chief Executives Forum.

Those discussions took place in the context of a series of significant policy changes including the forthcoming application of the LHA maxima and the roll out of Universal Credit which are predicted to result in significant risks for some associations to the revenue stream. Also relevant is the shared commitment with Welsh Government to deliver 20,000 affordable homes over the assembly period and a Welsh Government long term review of rent setting.

1. **Our ambition**

Our ambition is for a locally set rent at a level that is affordable for tenants, protects lender confidence, and maintains the confidence of government in this sector, offering value for money. This depends on the following:

**Flexibility:** As independent private bodies that exist for public good housing associations are led by their mission and social purpose to provide housing and support to those in need. Independent housing association boards should be provided with the flexibility over their main income stream to maximise their social impact and plan over the long term.

**Sustainability:** Fundamental to housing associations’ ability to invest in new and existing homes is ensuring a sustainable income stream. Welfare reform poses a fundamental challenge to the sustainability of this model. Flexibility will enable housing associations to balance and mitigate risks to fulfil their core purpose.

**Transparency:** Rents should be set clearly and they should be understandable to tenants and investors. The current centrally set, but locally delivered policy has resulted in confused accountabilities. Each housing association should have a rent policy in place approved by their board and developed with the involvement of tenants and wider stakeholders.

**Fairness:** The current system does not reflect the changes in UK welfare policy which has a major impact on tenants’ ability to pay and has lost touch with the market.

**Accountability:** It must be clear to tenants, investors and regulators who is responsible for making decisions over rent. Housing associations are robustly regulated and have strong accountability arrangements to their existing tenants and key partners.

**Reflect changes to welfare policy at a UK level:** The existing approach was in part designed to operate within a system that constrained HMT exposure via the benefit bill. However, the system has fundamentally changed via the forthcoming extension of the Local Housing Allowance to the social housing sector. There is no consequential impact of rent settlement for UK tax payers and Wales should be free to set rents the country, the associations and the councils need and which residents can afford.

1. **The ‘status quo’ is not sustainable**

The status quo is not a sustainable approach to rent setting and must be amended. Welsh Government’s review of rent setting provides an opportunity to fundamentally consider the role of rent setting in light of welfare policy and the role of housing associations as independent social businesses.

Our consultation with housing associations found that:

* Whilst the current approach technically enables flexibility within a centrally set envelope; the late announcement of the settlement, coupled with restrictive and dampening indicators means that practically there is little or no flexibility for most associations.
* The current approach operates independently of welfare reforms and is blind to the risks they pose to affordability to tenants and the collectability of rent. In practice, its inflexibility means that housing associations are limited in their ability to respond to mitigate these risks.
* The current regime is overly complex resulting in limited transparency and accountability. The policy includes several elements of detailed data; average weekly rents, locational indices and SAP ratings. The formulaic approach employed is contradicted to some degree by the dampening effect which limits flexibility for the organisation to respond to immediate changes. Overall the current system represents a complicated approach to explain to tenants.
* The current regime is redistributive. The current policy seeks the equitable distribution of income across the whole of Wales. However, the redistributive effect of the policy can result in an economic downturn in one area resulting in an increase of target rent in another.
* Rent Policy largely encourages rent increases to the target rent levels as a result of the uncertainty created from having a policy that is confirmed on an annual basis. A longer term and more flexible approach would support decision making that balances affordability for tenants with sustainability for the business.

Whilst it is of course technically possible to update and refine the existing policy the lack of flexibility within it means that the policy is not sustainable over the long term. We propose that Welsh Government fundamentally review the purpose and approach that they take to rent setting.

1. **Flexibility for associations to set their own rent within a clear and accountable framework**

Housing associations should have the flexibility and freedom to set their own rents. This would allow housing associations to balance their business needs against the affordability of tenants and ensure that they have a steady and secure income stream. This would help increase their contribution, provide certainty for boards and lenders, and better enable them to address issues of quality, undersupply and affordability across all tenants and communities.

How would it work?

**A sustainable and flexible approach:** Housing associations would set a local rent policy. The rent policy would be put in place over a longer term time period (the exact period at the discretion of the housing association) to support the delivery of the associations’ business plan and social goals.

**An open and transparent approach:** In putting together a rent policy associations would demonstrate:

* How they have considered the affordability of tenants and the collectability of rents. It is proposed that to support housing associations that advice and signposting on defining affordability is developed by the sector.
* That they have stress tested the impact of changes to rent levels on the viability of the business.
* How they have involved tenants in the development of their rent regime.

Welsh Government should publish an annual reporting of increases/decreases in the rents of all housing associations on an annual basis, as is the case in Scotland.

**An accountable approach:** Boards would be responsible for setting rent policy with housing associations and the regulatory framework, with its strong focus on strong governance would support and challenge the effectiveness of this.

Rent flexibility would also operate within parameters set by a new performance standard within the Welsh Government Regulatory Framework for Housing Associations Registered in Wales. This should include a requirement for housing associations to evidence how they have demonstrated affordability and transparency and stress-tested their rent setting approach.

Any divergence from the rent policy set out would require housing associations to consult with tenants fully on the impact of the changes.

**A fair approach:** With full rent flexibility, housing associations would be free to adjust rents to reflect local market conditions and need. This would allow subsidy to be focussed on the tenants and communities that need it the most. For example, a housing association could set lower local rents in areas where the LHA cap is low to support tenants, alleviate poverty and escape welfare dependency. This would enable housing associations to offer a wide range of rents that meet local housing need, respond to different housing markets, considers the type and quality of the property and reflects the changing requirements of communities.

Housing associations, as socially responsible charitable businesses are committed to providing affordable housing. It is contrary to their core purpose to set rents at a level that are unaffordable to tenants. For example, in Scotland, where rent flexibility exists this approach has not lead to significant increases in rent levels across the sector, on the contrary, average planned rent increases have decreased in recent years.[[1]](#footnote-1)

**An affordable approach:** Ensuring the continued and long term affordability of housing association homes for tenants has been at the heart of discussions about rent setting across the housing association sector. There are a number of models that may be employed by associations to achieve this. We propose to work with the sector to develop a series of options that may be used by associations when setting their rent policies.

1. **Next steps**

* Discussions with Welsh Government officials and the rent review team regarding the current system and options for the future.
* Discussions with Welsh Government regarding timescales for the implementation of a new approach. Should a new system not be feasible by 18/19 HAs need early certainty over the rent settlement for 18/19 whilst discussions over the long term approach are ongoing.
* CHC will be seeking volunteers to participate in a workshop to discuss options to ensure the continued and long term affordability of rents within a flexible model.

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1. Scottish Housing regulator National report illustrating rent increases/decreases <https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/National%20Report%200909016.pdf> [↑](#footnote-ref-1)