The Chartered Institute of
Public Finance & Accountancy

Consultation on Rents for Social Housing from 2015-16

December 2013

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General

CIPFA welcomes the opportunity to comment on the Government Consultation on Rents for Social Housing from 2015-16

As we are a professional accountancy body, our detailed responses are focused mainly on those questions around finance and accountability – we have not attempted to respond to all the questions in the consultation, some of which are clearly aimed at local authorities.

Detailed Responses to the Consultation Questions

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

Answer: The proposed ten year period of the policy is welcome because local authorities need certainty in order to plan effectively. However the issues we mention below need resolving if authorities are not to be financially disadvantaged.

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

Answer: The increased flexibility from a removal of the rent caps is welcomed. Authorities will then be able to move rent to formula on re-letting - but the question is, would such movements to formula be caught by limit rent? (The second part of this question is not applicable to CIPFA).

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

Answer: Our concern is that over time the CPI measure may give lower increases in rents even with a 1% add-on. This would result in fewer resources for housing. Local authorities themselves will need to carry out sensitivity analyses around possible levels of CPI compared to RPI in order to predict any such effects.

We note that the OBR 2013 pre-budget report (page 2) projects inflation rates with an increasing divergence between RPI and CPI resulting in a difference of 1.9% in 2017. There was also an article in the Guardian (3 July 2013) by Bill Davies that the Government's own costing documents show that by 2017-2018 the expenditure on housing benefit to local authorities will be reduced by between £405M and £540M lower than would have been the case had the RPI measure been retained.

That would be *money no longer be available for investment in refinancing housing revenue accounts or investing in the supply of new social housing.*

Currently, benefits are scheduled to go up by a flat rate of CPI. Clearly any scenario where rents are going up by more than benefits will create further challenges for the collection of rent. The implementation of direct payment of universal credit to tenants is likely to exacerbate such collection difficulties

Consultation Question 4: Do you agree with the definition of "household" proposed'?

The definition of social units such households necessarily changes with time. The definition proposed seems to us likely to best reflect the fairest position for tenants.

Consultation Question 5: Do you agree with the definition of "income" proposed?

Answer: The definition of income proposed, based on taxable income, is at least an objective measure and as such we would support it.

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

Yes. In our view it would be fairer to include capital. We suggest that it would be administratively most efficient if it were done in the same way as for benefits, and using the same rules and limits.

Consultation Question Q7: Do you agree with the income period proposed?

We do

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

The proposed self-declaration approach is likely to be the least costly for local authorities to implement but there must be doubts as to its likely take-up by tenants, ie, whether they will actually take the necessary steps to identify themselves and declare their income. The proposal is to increase rents in the year *after* earnings have reached the trigger level. This raises questions around what happens if by then the tenant's earnings have dropped back or he/she has become unemployed. In our view, implementation of this policy would involve a relatively large amount of work for authorities for minimal return in terms of increased income.

A possibly unintended consequence of this proposed policy might be that if tenants on higher incomes move out as a result of this policy it could reduce the number of working tenants in the social renting sector and long-term potentially have a detrimental impact on mixed communities.

We are not clear if the income trigger point of £60,000 is to be fixed in time. In any case, in our view it would be preferable for local authorities to have some local discretion to set a higher or lower figure locally, to take into account the local employment and income factors.

CIPFA would welcome some clarification on a specific aspect of this proposed approach: The consultation paper states (in paragraph 22) that social rent continues to be the main form of rent used, excepting the use of Affordable Rent for new properties. Paragraph 98 then spells out options in the case of HIST properties being either re-let back into mainstream social rent when void OR being converted to market rent. The latter appears to contradict paragraph 22 and even – potentially – appears to undermine the level of social housing stock.

Consultation Question 9: Do you agree with how we propose to treat historic grant?

Answer: We have some concerns around the proposals on historic grant. If historic grant is linked to loan arrangements and existing covenants, the same approach to all would, in our view, be inequitable.

If the increase in rent turns out to be temporary, then the grant could be repaid and the additional income lost.

We therefore suggest that a preferable approach might be for grant not to be altered with respects to any additional income, but that any such additional income be treated in a similar way as Right To Buy receipts, ie set aside for new build and/or investment.

Further Comments:

It is difficult to comment on this paper without knowing the plans for limit rent. We realise of course that this is to be decided that by a separate government Department, the DWP, but nevertheless it is important to the issues above. If limit rent is applied at the existing rent levels it would give authorities no freedom to increase rents above CPI + 1%. This will mean authorities some way off formula would have no way of making good the loss of income through ending rent convergence from 2014/15. Consideration also needs to be given to how properties are re-let at formula rent (so as not to push average council rents above the limit.

The demise of convergence a year early may be a significant issue for some authorities (depending on how it is done) if actual rents are still a long way below limit rent. It could, for example, adversely affect their capacity for new house-building.

Overall, it needs to be realised that the proposed policy will likely result in lower rental income for some if not all authorities that was allowed for in their self-financing settlement and business plans.