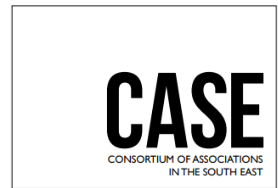



# CASE response to the Social Housing Rents consultation

13 October 2022

## About CASE

CASE is the Consortium of Associations in the South East. It is a group of large and medium-sized housing associations with significant social housing activities in the South East of England. Our work is crucial in tackling the housing challenges in the South East region, where house price affordability has declined at a greater rate in recent years than anywhere else in the UK.

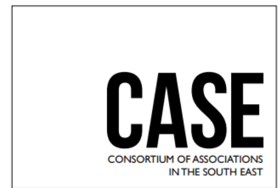
CASE members own and manage over 500,000 homes predominantly in London and the south of England. Of these, around 165,000 are affordable homes in the South East, out of a total of just over 400,000 housing association homes in the region.

CASE members are also substantial developers, typically building over 4,000 new homes in the South East each year, of which the vast majority are affordable homes for rent or shared ownership.

CASE members are a major force for the provision of new affordable housing in the South East, and own and manage a third of the total of housing association homes in the region.

Collectively, we make significant investments which increase housing supply in the region, deliver safe and well-maintained homes for our residents and make substantial contributions to local economic activity and employment through our work.

We all generate surplus which contributes to the funding of our affordable housing investment. We make long term financial projections based on this, including for the purpose of demonstrating to the Regulator of Social Housing and our funders our long-term financial viability. The surplus we generate is not held as cash, other than to the limited extent of following good practice in maintaining sufficient liquidity for adequate periods to continue our business. It is reinvested in our housing activities, principally through the costs of building new homes and maintaining and upgrading our existing homes. This capital investment includes the costs of ensuring that our buildings meet safety requirements, and to make them more energy efficient.




CASE members are:

- Abri
- The Guinness Partnership
- The Hyde Group
- L&Q Group
- Moat Homes
- Metropolitan Thames Valley Housing
- Optivo
- Paradigm Housing Group
- Sovereign Housing Association
- Vivid Housing
- West Kent Housing Association

# Consultation questions

***Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?***

☐Yes
X No
☐Maybe

We agree that it would not be right to increase rents in line with what is likely to be an exceptionally high level of inflation in September 2022.

We think that the decision on the precise level of rent increases should be left to providers' Boards, who are better placed than the Government to determine the right balance between rent increases and investment requirements, which will sustain our collective work to provide good affordable housing and services over the long term for more than half a million of the households in the region.

If the Government chooses to leave Boards to set rents, we are clear that none of the providers in CASE would set rent at or near the maximum implied by the current formula. We are well aware of the cost-of-living pressures facing our residents, and the potential impact of rent increases for some of our customers. All the organisations in the Group are providing substantial levels of additional support to vulnerable customers and those struggling to make ends meet.

We are also clear that setting a ceiling could reinforce the distortions in the current pattern of rents. For example, it could result in rents that are well below target rent levels increasing by less in nominal terms than rents set at target levels.

The absence of a means for rents to catch up over time with the level implied by the underlying formula (except for when properties become void) greatly compounds these problems. If the Government does decide to cap rent increases this year, we would urge that it also introduces a mechanism that allows convergence over time. Options include reintroduction of the flexibility available before 2015 to “catch up” at a rate capped at £2/week, or to introduce a system which allows providers to set rents within a range (for example between 0% and 7%) up to the level implied by the relevant formula.

A mechanism along these lines would greatly reduce the long-term loss of income and consequential loss in investment implied by the proposals in the consultation.

We also note that a cap would not help most of our least well-off residents, who rely on welfare benefits. Instead, by reducing investment in measures to improve energy efficiency, it could aggravate cost-of-living pressures for these customers.

Similarly, a cap, and in particular a cap without flexibility to converge back to the underlying formulae, will reduce providers’ ability to take steps to offset sharp inflationary increases in service charges and shared ownership rents.

Finally, we would observe that a cap will have wider ramifications for the economy. For example, it would mean providers reducing investment in new homes at a point in the economic cycle when housebuilders may also decide to slow down or stop development owing to unfavourable market conditions. This could have serious negative implications in terms of economic growth and the long-term capacity of the housebuilding sector.

***Question 2:*** **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Our view is that, as expressed in response to question 1, a cap should not be applied in the way proposed. If it is to be applied, 7% is a preferable alternative, because it will give providers more flexibility to respond in line with their circumstances and the needs of their residents.

CASE members have assessed the combined impact on their rental income from the proposed options, and the table below summarises that impact.

We want to emphasise that the impact of a cap, whether for one or two years, is a permanent effect on our long -term financial capacity unless there are other mitigating measures, as rents would be permanently lower. This effect has already been applied to

housing associations recently through the four years of rent reductions under the Welfare Reform and Work Act 2016. Many of our residents are paying rents which only returned to the nominal levels of 2016 with rent increases applied in 2021.

| Estimated cumulative loss over: | 5 Years | 10 Years | 30 Years |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Rent capped at 3% | 1,245,389 | 2,823,800 | 11,281,508 |
| Rent capped at 5% | 961,842 | 2,061,270 | 7,647,645 |
| Rent capped at 7% | 674,142 | 1,477,348 | 5,193,267 |

It is inevitable that the removal of rental income at this scale from our long-term financial plans will have an impact on our individual and collective financial capacity.

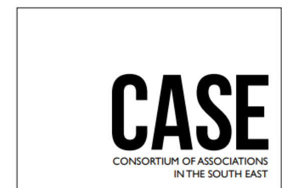
Our costs, both for the provision of services, and investing in new and existing homes, are increasing at or above headline inflation levels, with particular pressures on energy, construction, insurance and maintenance costs. The National Housing Federation's analysis of inflationary pressures, provided by CEBR to inform responses to this consultation, confirms the extent of inflationary pressures in excess of CPI in those areas of expenditure. It is inevitable that setting rents at a level below inflation will result in significantly reduced operating margin and less long-term investment by housing associations.

Each of these scenarios has a different level of impact on individual CASE members' financial capacity dependent on their current position, but the impacts have the following common elements:

- Capping rents, given the wider inflationary pressures, will reduce operating margin and interest cover. This is the surplus which we apply to investing in building new homes and maintaining and improving the condition of our existing homes. Interest cover is a measure used by us and lenders to show the extent to which our operating surplus meets levels which cover the interest payments on our long-term borrowing.

- This also has an effect on the value of our homes. Some members use the value of future cashflows as the basis for balance sheet valuations. Reductions in the real term value of rents will reduce these values, and this will in turn increase the level of gearing (debt as a percentage of property value). Because our loan agreements generally specify a maximum level of gearing, this will reduce our future capacity to borrow. Similarly, rent caps are likely to lead to reductions in values used for loan security purposes, which could also introduce additional constraints around future borrowing.

- Lenders and credit rating agencies will modify their views on our creditworthiness for the effect of the proposed cap, further aggravating the significant upward pressure on the costs of borrowing, which have gone up very sharply already owing to wider market pressures. These risks would be compounded if increases in mortgage costs




reduced the cashflows providers receive from the sales of property, including new-build homes.

Inevitably, the members of CASE will need to respond to a rent cap according to their circumstances. Examples of the likely impact of a 5% cap include:

- One CASE member has assessed that to remain within its required level of long-term financial performance, it would build 200 fewer new affordable homes in a year (40% of its current programme), and another CASE member also indicated a comparable reduction in the size of their development programme of 26%-50% for the range of scenarios between 7% (lower impact) and 3% (higher impact). This would not affect developments which are currently on-site, but would have a medium to longer-term effect by reducing the number of new developments that are started once a cap is imposed.

- One CASE member estimates that it would reduce its interest cover by 5%, which would require it to reduce its revenue expenditure by approximately £6m/annum for which it would look to slow down the rate of investment in its existing homes and its programme to reach its net zero carbon targets, which would include works to bring existing properties up to EPC by 2030, absent grant funding to cover this cost.

- For another CASE member, the difference in rental income compared with the CPI+1% formula is equivalent to the financial resources which it would use to build 560 homes over a five-year period.

- Deferral of fire remediation works, which could mean some leaseholders effectively stuck in homes that they will struggle to sell or re-mortgage.

- Increased sales of existing properties, particularly those properties that will be most expensive to bring up to a level consistent with the ambition to achieve carbon neutrality by 2050.

The extent to which we reduce the number of new homes we build has a wider economic impact in the region. Housebuilding, in particular, is an economic activity for which economic benefits are greater than the overall cost of the houses built, and the additional value generated is, by its nature, retained in local and regional economies to a relatively high degree.

We analysed the impact of our investment in new homes in 2018. Whilst the precise figures will now be different, the scale of the growth benefits of our housebuilding plans remain at a similar scale. These growth benefits will be reduced by the effects of a rent cap, by a level equivalent to any reduction in our programme to build new affordable homes.

Across the area where we work, planned investment (in 2018) of £2bn in new homes was estimated to have the effect of generating additional value within the South East equivalent to a further £1.4bn.

Over a three-year period, that level of investment activity adds over 23,000 jobs in the South East and generates income for employees in the South East of over £780k.

The additional jobs and earnings are significant benefits from our development programmes. This is over and above the extensive economic benefits that arise from the long-term ownership and management of over 165,000 homes in the region.

***Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?***

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

The cap should apply for one year only.

A two-year cap would compound the many problems outlined in response to questions 1 and 2.

***Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?***

X Yes
☐No
☐Maybe

We agree, but we would also observe that the underlying logic of this position also applies to the case for rent convergence.

***Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?***

X Yes
☐No
☐Maybe

We believe rents on supported housing schemes should be outside any cap. Many of the residents of these schemes rely on welfare support, so would not benefit from any cap. They are much more likely to suffer detrimental effects owing to risks around the viability of some schemes, and cuts to services in others.