Future social housing rent policy

NHF consultation response

20 December 2024

Summary

The National Housing Federation is the voice of England's housing associations. We represent virtually all of England's housing associations. This response has been written following extensive engagement with and input from our 570 members.

Top lines

- We welcome these proposals, which are a **positive first step** in fulfilling the government's manifesto commitment to restore the financial capacity of housing associations.
- However, **the proposals will not be sufficient to reverse the decline in affordable housebuilding**. More action is needed for the sector to help the government achieve its **target of 1.5m new homes** while delivering on obligations to existing residents.
- We're calling for **further interventions both on rent and grant funding** to support housing associations to accelerate new housebuilding, keep rents affordable and fair, and improve existing homes.
- **Housing associations have seen their financial position deteriorate in recent years**, with interest cover falling from 128% to 103%, and repairs and maintenance spending increasing from £6.5bn to £7.8bn between 2022 and 2023. **These trends are expected to accelerate** in future years and will put a significant dent in the sector's capacity for development without a **package of interventions** (rather than a 'pick and mix') designed to address the cost pressures behind them.
- **Specific changes to rent policy for supported housing and housing for older people are needed**, in addition to a wider package of reforms to revenue and capital funding, in order to maintain viability of some schemes and encourage new development to meet changing population need.

Rent policy

- We are asking for a **convergence mechanism** to be included in the settlement, allowing housing associations to gradually increase rents that are below the earnings-linked rent formula.

- This measure would restore housing association financial capacity, especially in areas where it is most constrained (such as London), while remaining affordable to residents.
- We estimate **a convergence mechanism could unlock 90,000 new homes by generating £3.5bn in additional rental income over 10 years**.
- An additional **£3 per week in convergence** would be affordable to residents relative to income – even for those on the lowest 10% of incomes – and would only result in an increase of **up to 0.6%** in overall welfare spending on housing support by 2030.
- **The longer the rent settlement lasts, the better. Our preferred option is 10 years** as this will give housing associations and their investors greater certainty and enable longer-term, more efficient investment decisions.
- We have **consulted with our Tenant Advisory Panel** (formed of housing association tenants across England) who were generally supportive of these asks, while emphasising the need for affordability for residents and long-term certainty on rent policy.
- **It is vital that this settlement is adhered to for its full duration**. To amend it part-way through would significantly damage investor confidence in the sector.
- We support a rolling settlement, if it is structured in a way that allows CPI+1% (and convergence) to roll on as default without consultation, so that there is a minimum of five years of certainty, but for the government to consult five years in advance if it wants to change the settlement.
- We are calling for **additional rent flexibility for supported housing and housing for older people schemes, rising from 10% to 20%**, so rents can better reflect the additional non-service-related costs of building and maintaining these schemes.

Other forms of support

- A satisfactory rent policy (CPI+1% and a convergence mechanism) is essential to restore financial capacity to the point where housing associations can combine capital funding for new homes with private finance at a higher level than is currently possible.
- We encourage the government to bring forward its plans for the successor to the 2021-26 Affordable Homes Programme as quickly as possible and hope to see **more funding and higher grant rates**.
- Modelling carried out by some of the largest developing housing associations shows the intervention that would have the biggest impact on the development of new homes is **grant for existing homes.** These housing associations would have the capacity to deliver 82% more homes over 10

years than under current plans assuming grant rates of £800 per home per year and a convergence policy were introduced.

- **Grant for existing homes** would alleviate cost pressures arising from energy efficiency upgrades, higher standards for existing homes and building safety remediation costs, **freeing up capacity to build more new homes**.
- Regulatory clarity and stability, as well as adequate time to prepare for the effects of new regulations and legislation, will also help housing associations to plan investment programmes more efficiently.
- Without this package of measures, the sector will struggle to maintain new supply at current levels, let alone deliver the significant acceleration in new social and affordable housing supply that is desperately needed by over four million people in England in need of a good, safe and secure home, and to meet the government's pledge to build 1.5m homes.

Background

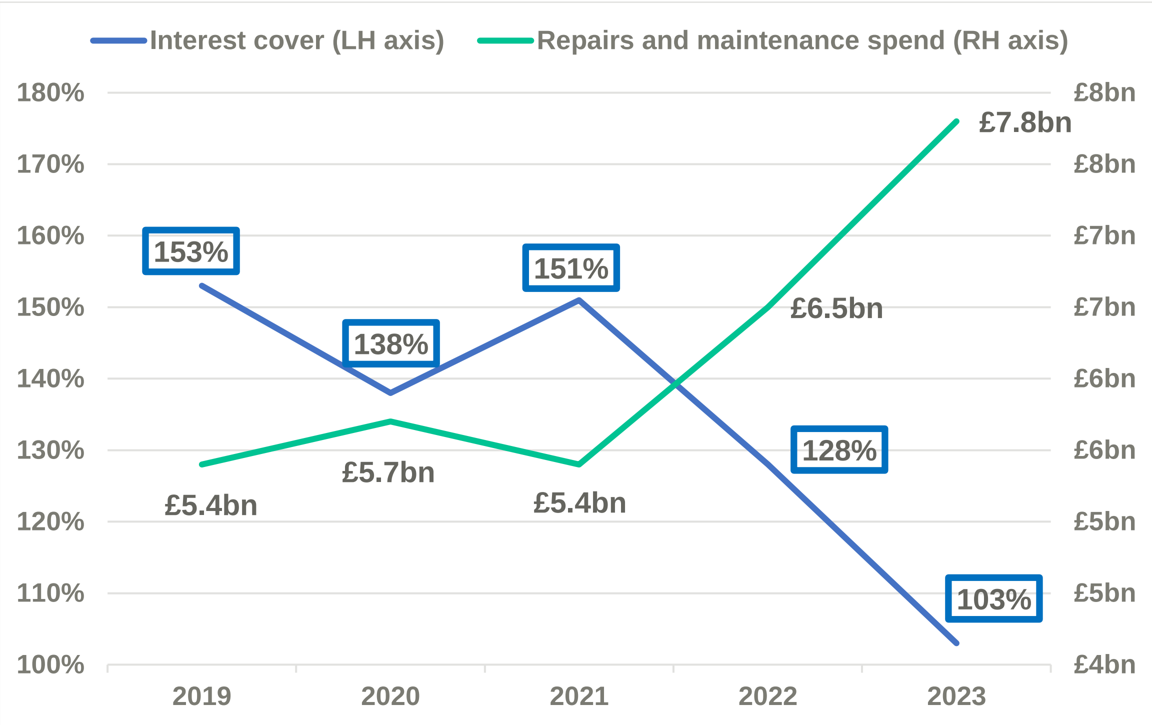
The financial position of the housing association sector

Housing associations are spending record amounts on existing homes. Total spend on repairs and maintenance in the 12 months to September 2024 was £8.4bn (up from £7.8bn in the 2022/23 financial year) and is expected to reach £9.6bn over the next 12 months.

The factors driving up repairs and maintenance spend include:

- The cost of building safety remediation work, for which there is no government support for the social housing sector.
- Greater emphasis on the condition of existing homes due to the new consumer standards, and upcoming regulation including the revised Decent Homes Standard and Awaab's Law.
- The need to improve the energy efficiency of existing homes to meet EPC C by 2030 and net zero by 2050.

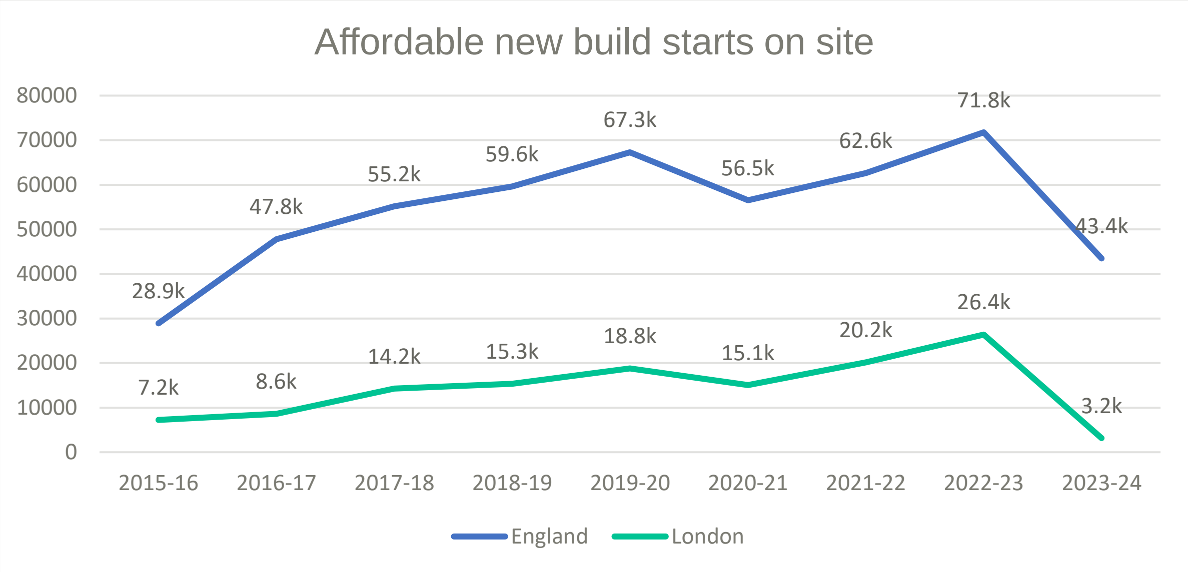
For most housing associations, this elevated spending will weaken their interest cover, with this metric dropping below 100% for many, including some of the largest developers of new social homes. An interest cover of below 100% is not sustainable in the long-term, so housing associations in this position are looking to reduce their outgoings where possible.



1 Regulator of Social Housing, Global Accounts of Private Registered Providers, 2022/23

Most spending on existing homes is non-negotiable, so development spend is the only discretionary form of spending that housing associations have left to reduce.

The effects of this change are evident in the number of new housebuilding starts. There were 43,439 affordable starts on site in England in 2023/24, a 39.5% decrease on 2022/23, driven primarily by a collapse in London (where some of the pressures outlined above are most acute).



2 Ministry of Housing, Communities and Local Government, Affordable Housing Supply in England, 2023/24

Recent changes in the operating environment for housing associations, in particular the national insurance threshold and rate increase, have exacerbated financial pressures. Nationally, the cost of the national insurance changes are estimated to be over £100m per annum for housing associations. Feedback from our members suggests that the changes have increased staff costs by 2-3% on average, which for the largest associations, equates to an increase of circa £5m per annum.

Modelling carried out by some of our largest members suggests that increased costs following the Autumn Budget and lower than expected September inflation figures have reduced housing association development capacity by 6%, reversing some of the benefits of the CPI+1% rent settlement.

Organisations with high staff-resident ratios, for instance those that provide care and support services, as well as those with larger numbers of lower-paid staff (such as in the supported housing sector) are particularly impacted by increased staff costs, with some of the largest providers facing cost increases of close to £10m.

Supported housing and housing for older people has been hit particularly hard by these changes, further exacerbating financial difficulties following years of cuts to local authority housing-related support contracts and decommissioning of services. One in three supported housing providers have had to close services in the past year and [60% expect to close services] in the future due to viability concerns. Nearly two fifths (38%) of supported accommodation services for single homeless people have closed since 2010, due to over £1bn in funding cuts. The lack of supported and age-appropriate housing impacts on NHS and social care budgets with people stuck in hospital or institutional care, or in unsuitable housing detrimental to their health and independence.

The significance of rent policy

Rental income accounts for 63% of housing association turnover. Although rents are primarily intended to cover the cost of existing homes, housing associations borrow against future rental income to build new homes.

We therefore welcome the government's proposal of a CPI+1% rent policy for at least five years. This will give housing associations the certainty of income they need to carry out their responsibilities.

However, some housing associations have already borrowed nearly as much as they can against their existing properties under current rent and grant policies, which is why interest cover is edging closer to 100%. This is particularly true for larger organisations operating in London with significant development programmes, as well as those with substantial building safety remediation liabilities.

That's why we're calling for a rent convergence policy, because this would increase the amount that housing associations can collect in rent in a fair and affordable way. Combined with appropriate grant rates and substantial support to invest in the safety, quality and sustainability of existing social homes, this would allow the sector to increase housebuilding and make a significant contribution to the government's 1.5m new homes target.

In reaching this conclusion, we consulted our Tenant Advisory Panel (TAP), formed of housing association tenants from across England. In general, members of the panel were supportive of a CPI+1% rent settlement, as well as a convergence mechanism. They emphasised the need to ensure social housing rents remained affordable, including in relation to available welfare support, and without the onus to support housing association finances falling solely on residents. There was also support for a settlement of longer than five years to give maximum certainty to housing associations and residents.

The rent policy we are calling for

We agree that CPI+1% provides the right balance between affordability for residents and the government, and restoring housing associations' financial capacity.

However, we believe the policy should include a convergence mechanism. The mechanism that we're in favour of is a £3 per week additional charge for rents that are below the government-defined formula.

This convergence mechanism would not change the existing formula, meaning it would make up the gap of the 2023/24 ceiling but not the 2016-20 rent reduction (2017-20 for supported and older people's housing).

We're also calling for an increase in the rent flexibility upper level for supported housing and housing for older people, from 10% to 20% and for a change to the restriction on public investment in specialised supported housing for people with very high care and/or support needs.

Response to questions

1. Do you agree with our proposal that the government should set a rent policy that will remain in place for at least the next 5 years, from 1 April 2026 to 31 March 2031?

Yes – the longer, the better. Long-term certainty on rent policy is important because it gives housing associations confidence about their future income, which is important because:

- It enables housing associations to plan further ahead, meaning they can make more strategic and potentially more efficient decisions about investment in new and existing homes.
- Investors and ratings agencies will have more confidence in the stability of the sector meaning that housing associations can secure more investment at lower rates.

In practice, a longer settlement could mean boards have the confidence to sign off larger development schemes with longer timeframes, invest more in strategic land-buying, and take a longer-term approach to developing supply chains and in-house capacity.

The NHF's Tenant Advisory Panel was also highly supportive of a longer settlement, both for the certainty it would provide to housing associations but also to the residents they serve.

2. What impact would a longer settlement have, and what alternative length should a settlement be?

We favour a 10-year settlement, or at the very least a seven-year settlement for the reasons outlined above.

If a 10-year settlement is not possible, then a settlement of at least seven years should be introduced so that future rent policy does not need to be decided in the midst of a potential general election campaign in 2029/2030. This would avoid a repeat of last year when the uncertainty of an impending election campaign eventually precipitated a one-year roll-on of the existing settlement, prolonging the period during which rent policy was only set one or two years ahead.

3. Would a rolling settlement of 5 years provide additional stability or certainty?

Yes, depending how it is implemented.

We would welcome a settlement designed in such a way that CPI+1% rent increases and a convergence mechanism are the default option in year six (and thereon), without the need for consultation unless the government alters the settlement beyond this.

Ensuring that there is always at least five years of rent certainty would provide financial certainty both for housing associations' more detailed five year business plans, as well as for lenders and credit agencies who typically focus on the first five years of a business plan.

4. What impact would these alternative lengths of rent settlement have on providers' willingness and ability to invest in new and existing homes?

We favour a longer settlement because it would help the sector to plan and boost investor confidence. However, in the immediate term, the only thing that will boost housing associations' willingness to invest in new and existing homes is additional funding. Part of this should come from rents. This rent settlement should re-introduce the convergence policy in place between 1999 and 2015.

5. Are there rent policy measures that would provide confidence in the stability of our policy in the event of an inflationary spike?

The main thing the government could do would be to introduce a convergence mechanism. This would give housing associations the flexibility to limit rents in the event of an inflationary spike, if appropriate, in the knowledge that they would be able to recoup their losses in future years (gradually, at a level that is affordable to residents). Under the current proposals, any capping of rents below inflation does irreversible damage to financial capacity, and highly discourages housing associations from doing so.

We agree with the government's decision not to include a ceiling or cap in the future rent settlement. To do so would undermine certainty and lender confidence in the housing association sector.

Individual housing association boards are best placed to make the decision about what level of rent increase is affordable to their residents in the event of high inflation. The situation of every housing association will differ, including the current affordability of the rents they charge, the mitigations they are able to offer, and the opportunity cost of capping rents.

6. Are there any other measures the government should take to build confidence in the stability of its rents policy?

The priority should be implementing a rent policy that is adhered to for its duration that can – together with a suitable package of capital funding – provide sufficient income for the sector to maintain its existing homes and make a significant contribution to new housebuilding.

We also believe that the government's commitment to publishing a long-term housing strategy is vital to building sector confidence in its rent policy. For too long, rent policy has been set with very little consideration of a wider strategy or outcomes, leading to frequent, substantial, and often contradictory changes in policy.

Positioning rent policy as a key tool to deliver on the government's long-term housing ambitions should give housing associations confidence in the government's long-term commitment to it.

7. Do you agree with our proposal that rents should be permitted to rise by CPI+1% per annum?

No. While we welcome CPI+1% increases as a step in the right direction, we think this rent settlement should also include a convergence mechanism, by which rents that are below formula rent are gradually increased.

A convergence mechanism, first in place between 1999 and 2015, would permit social landlords to gradually increase rents that are below the value currently set by the social rent formula for that property.

We suggest that the convergence value should be £3 per week. This would mean no tenant would pay more than £156 per year on top of their existing rent.

This measure would allow social landlords to recoup the losses baked in by the 2023/24 rent ceiling, when rents were capped well below actual costs for landlords, as well as those from any properties with rents that had not fully converged when the measure was scrapped in 2015.

Based on housing associations' returns to the regulator, we know that 71.4% of properties are currently below formula rent. In 2024/25 this amounted to a difference of £394.2m between actual rents charged, and those that would be charged if all tenants were paying formula rent – the rent charged when a property is first or relet.

Convergence would have three major benefits:

- **Fairness** – it would mean that tenants pay equal amounts for similar properties, rather than the current system where tenants can pay significantly different amounts for adjacent identical properties (up to £60/week) depending on when they moved in.
- **Additional rental income** – the measure would generate significantly more rental income which housing associations could reinvest into new and existing homes.
- **Affordability** – our proposed mechanism would increase rents gradually and no tenant would pay more than the value set by the social rent formula which is linked to local earnings.

8. What do you consider would be the impact of our proposed rent policy on affordability for rent payers and the willingness and ability of registered providers to invest in new and existing homes over the next 5 years?

Our analysis shows that formula rent is affordable in almost all cases. Where it is not, this is a shortcoming of an inadequate benefits system, rather than the level that rent is set at (which in high-cost areas, can be as low as 30% of equivalent market rents).

The proposed rent policy does not go far enough in enabling housing associations to invest in new homes in the coming years. The range of cost pressures outlined above mean that a CPI+1% policy, while welcome, will not be sufficient to maintain new supply at 2023 levels and will lead to some housing associations (further) reducing their development ambitions to focus on their existing homes. A convergence mechanism is needed to restore the sector's financial capacity and enable housing associations to make a much-needed contribution to the government's ambitious housing targets.

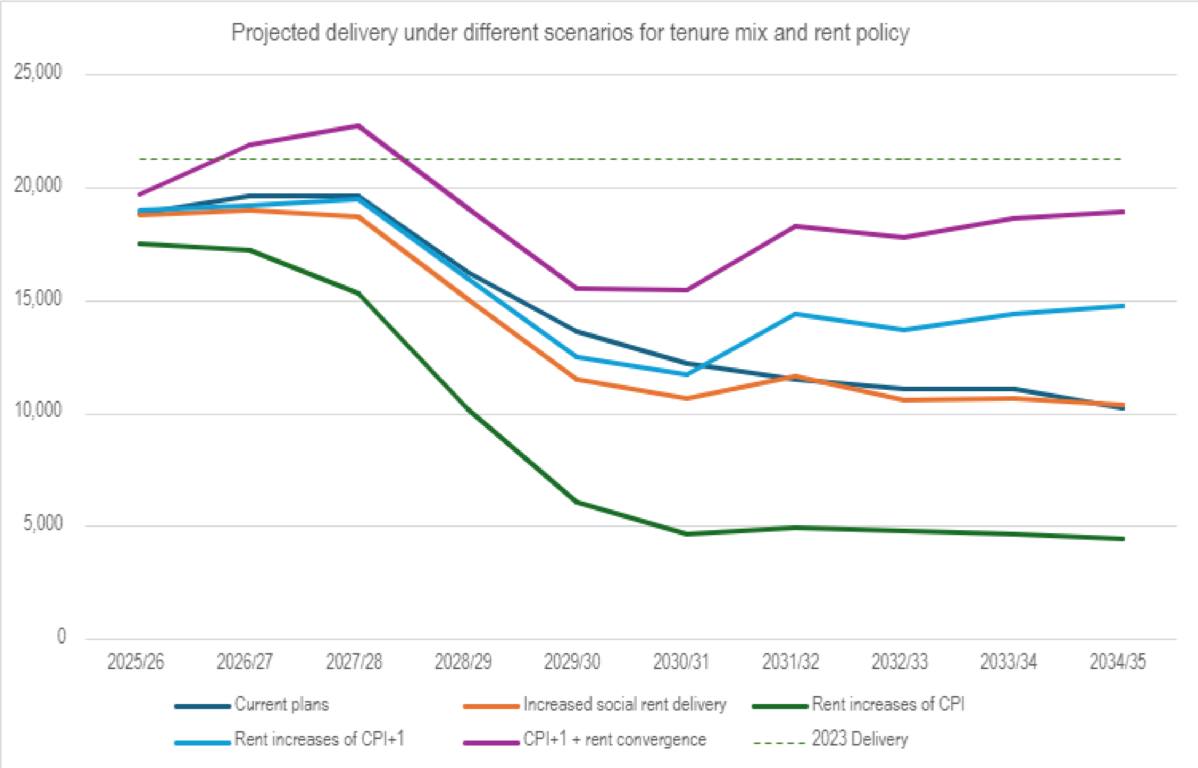
We have outlined below the difference that a convergence mechanism would make in comparison to CPI+1% alone, as well as the affordability of the measure for both rent-payers and the DWP.

We also believe separate measures are needed for supported housing and housing for older people, which is currently facing extreme financial pressures, putting existing schemes at risk and curtailing badly needed new development. This includes increasing the rent flexibility level to 20%, outlined in further detail below.

The importance of convergence for housing association investment

Without a range of interventions by the government, we expect housing associations' contribution to new supply to fall over the coming years, as the sector reprioritises resources towards existing homes. If the government moves forward with CPI+1% alone, we expect, based on detailed modelling carried out by our largest members, that the number of new homes built over 10 years will be 27% lower than the level achieved in 2023, assuming grant rates stay the same.

Conversely, a convergence policy reverses this downwards trend, as outlined below.

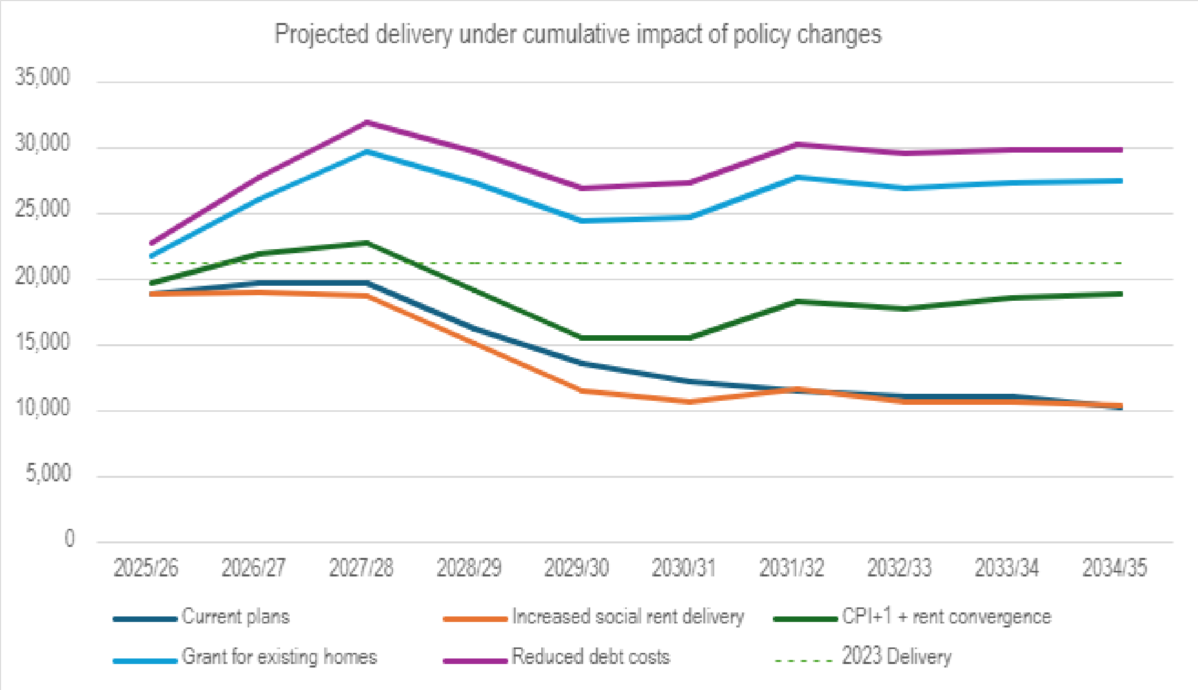


3 Modelling carried out by large developing housing associations

NHF modelling suggests that, if left in place until 2034/35, convergence would raise £3.5bn for housing associations across the country. With the right grant funding environment, our members could use this to build an estimated 90,000 additional homes over the next 10 years, by combining the extra rental income with an additional £18bn in private finance. We have heard specific evidence from members that a convergence mechanism would enable them to build more homes including:

- A large housing association based in the south of England that has recently scaled back its development ambitions from 1,800 homes to 1,400 homes but would be able to increase this back up to 1,700 homes with convergence.
- A large nationwide housing association that would gain £400m in development capacity as a result of convergence, equivalent to 1,600-1,700 additional homes.
- A group of landlords operating in the East of England that estimate that rent convergence could enable them to deliver 1,400 additional homes over 10 years.

Without an effective rent policy (CPI+1% and convergence), and additional grant funding for new and existing homes, the government will not get the boost to new supply it needs to meet its 1.5m homes target. Based on modelling carried out by our largest members, grant rates of £800 per existing home (covering decarbonisation, building safety and quality costs) would give housing associations the capacity to build 34% more homes than in 2023, and 82% more than expected under current plans over 10 years. Without further intervention, new supply is expected to fall significantly below 2023 levels of delivery in the coming years.



4 Modelling carried out by large developing housing associations. Grant for existing homes assumes £800 per home per year.

Some of the biggest funding challenges are faced by housing associations based in London, where landlords have major building safety remediation costs and where delivery of new homes has fallen farthest. London also has the most homes let below formula rent. At present, 94.4% of housing association rents in London are below formula, by a total of £158m this year. London would receive 33% of all the benefits of convergence, equating to £1.13bn by 2034/35. A convergence policy would support the city to address levels of housing need that are amongst the most severe in the country, with London local authorities spending £90m a month on temporary accommodation, up 40% on the previous year.

We have heard from members based in London that convergence would have a significant impact on their ability to commit to new development, including:

- A large landlord that, as a result of the budget announcement (including the lack of convergence), has decided not to proceed with three schemes that would have delivered 929 homes and has paused development of 4,370 new homes, most of which have planning permission.
- A smaller London-based landlord with substantial building safety remediation liabilities, that would struggle to invest in new homes at all under a CPI+1% rent policy unless convergence is included.

However, this isn't just a London issue. Other types of landlords are also disproportionately affected by below-formula rents, especially those formed by large-scale voluntary transfers from local authorities. Examples of these include:

- A medium-sized housing association based in the south west of England that has 70.5% of their homes let below formula rent, and would be able to build 1,550 more homes than it would otherwise over 10 years if a 10 year CPI+1% and convergence policy was in place (of which 500 would be built before the next general election).
- A large north east-based housing association formed through a stock transfer from a local authority in the mid-2010s, that has 95.1% of its homes let below formula rent and would stand to benefit from convergence by over £551.3m by the end of their 30 year business plan.

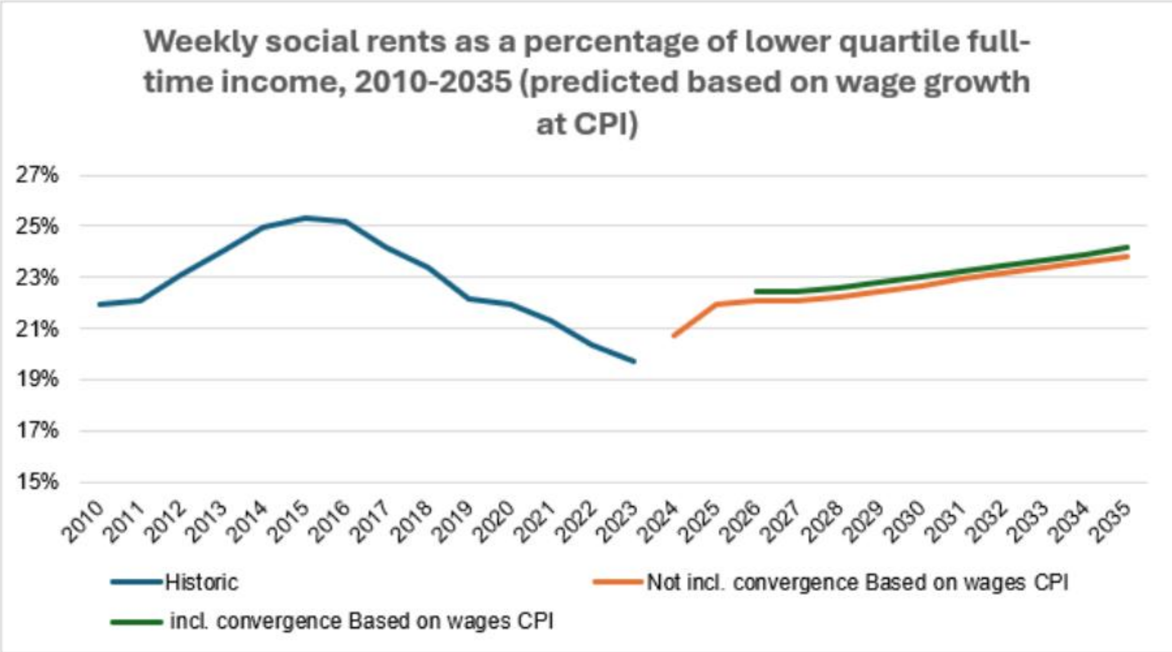
The affordability of convergence for tenants

Our members are acutely aware of the financial hardship faced by some of their residents and share the desire of MHCLG to protect social housing residents from unaffordable rent increases.

The NHF's Tenant Advisory Panel, consulted as part of the NHF's gathering of member views, also emphasised the need for rents to remain affordable, including in relation to the additional support provided through the benefits system.

Because the rent formula is linked to local earnings and increases by inflation or less, it is much more affordable relative to earnings than private rents (ranging from 30-60% of market rates depending on location).

NHF modelling shows that, relative to gross household earnings, fully converged rents are affordable, taking the commonly used benchmark that housing costs should make up no more than a third of income.



5 Regulator of Social Housing, Private Registered Provider Stock and Rents, 2022/23

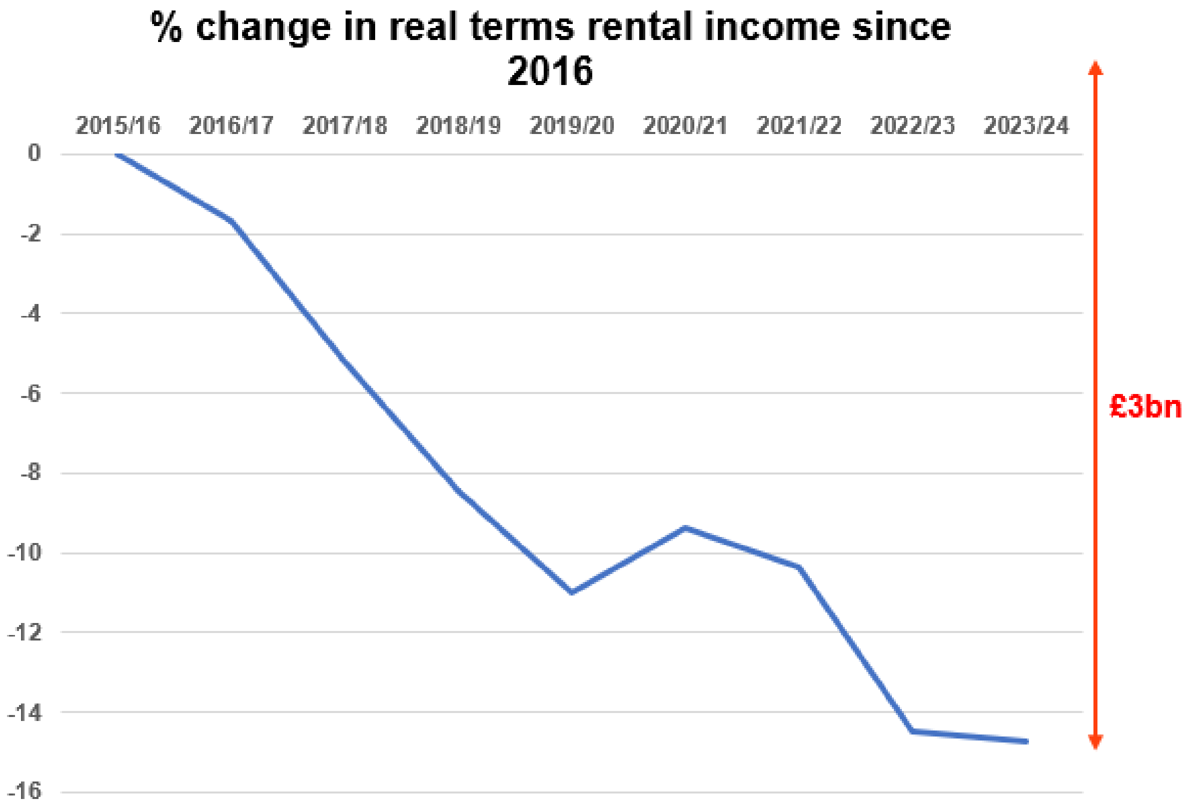
Affordability of two-bedroom social rent homes by 2034/35 compared to 2024/25, % of local authority areas where social rent is affordable

	2024/25	2034/35 (wage growth reverting to CPI)	2034/35 (wage growth reverting to CPI+1%)
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	100%	100%

Affordability of three-bedroom social rent homes by 2034/35 compared to 2024/25, % of local authority areas where social rent is affordable

	2024/25	2034/35 (wage growth reverting to CPI)	2034/35 (wage growth reverting to CPI+1%)
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	98%	99.3%

Due to the effect of the 2016-20 rent reduction and 2023/24 rent ceiling, formula rents are well below where they were in real terms in the mid-2010s.



We recognise that there is a specific concern around affordability for tenants who pay their rent with support from the benefits system. As rents rise and the benefit cap remains static, a small minority of residents will have their benefits capped. This is a particular challenge in high-cost areas and for larger households. A similar issue exists for residents affected by the removal of the spare room subsidy (‘bedroom tax’). Housing associations are experienced in identifying and supporting residents in these situations, as both measures have been in place for over a decade.

One large London-based housing association’s additional support offer for residents was directly influenced by the introduction of welfare reform measures under the coalition government, and includes:

- Proactive outreach to residents as soon as they enter arrears, with staff trained on how to spot signs that a resident’s benefit entitlements may be capped or they are affected by the removal of the spare room subsidy.
- Referral to money advice services provided by the landlord who can signpost residents to additional forms of welfare support, including local authority discretionary housing payments, as well as in some cases food and fuel vouchers funded by the housing association.

- Referral to tenancy sustainment and employment support services that support tenants to maximise their income and access (better) paid work.

Many other housing associations also offer very similar types of support.

The affordability of convergence for public finances

We recognise the significant pressure on public finances and acknowledge that any increase in social rents will lead to an increase in welfare spending.

According to the English Housing Survey, 58% of housing association tenants receive some level of housing support from the welfare system. We estimate that the total increase in DWP housing benefit/universal credit spending as a result of this measure for housing associations will be £99m in 2026/27, rising to £220m by 2030. Including a convergence mechanism would therefore account for no higher than 0.6% (and on average less than 0.5%) of total housing support paid for by the DWP by 2030.

This additional cost would also be offset in the long-term if fewer claimants of housing support lived in the more expensive private rented sector and more in the social rented sector. If all claimants in the private sector were housed in the social sector, the saving to the DWP would be £1.6bn. There would also be additional financial benefits to both local authorities and the DWP with reduced use of temporary accommodation.

Housing associations would also be able to multiply this additional spending several times over in private borrowing for new supply.

Interventions for supported housing and housing for older people

In recognition of the severity of the financial pressures facing the supported housing and housing for older people sector, including the risk of providers closing schemes, we are calling for specific rent policy measures to support this sector.

Increase to the rent flexibility level

The rent flexibility level for supported housing and housing for older people should be increased from 10% to 20% at new or re-let. This would give providers the discretion to increase rents above formula rent where this is necessary to meet the elevated costs of the specialist adaptations and buildings (including the need to maintain communal spaces and the shorter lifetime of components) or ensure the viability of the scheme going forward, and where the increase is considered affordable for residents.

We do not believe that this option would be exercised across all providers of supported housing and housing for older people. Several of the largest providers of housing for older people have informed us that they would not raise rents above the existing 10% flexibility level, as this would be unaffordable to their residents.

Nationally, not all members use the current 10% flexibility ceiling either, with 56.3% of homes let below the 5% flexibility level. The more staff-intensive services offered in this form of housing mean members are keenly aware of schemes where affordability is a challenge and would only exercise the increased rent flexibility where suitable mitigations (for instance, adequate access to welfare benefits) are in place.

Remove the ‘without public assistance’ requirement for specialised supported housing that is exempt from formula rent

Specialised supported housing is bespoke supported housing that can be let above formula rent as long as tenants have care and/or support needs equivalent to those of people who live in residential care, and no public subsidy has been used to fund the capital costs of the housing. As capital grant rates have fallen in the last 14 years, it has become increasingly difficult to build supported housing let at formula rent for people with a learning disability and autism. Care Quality Commission guidance states that schemes should be small-scale or single properties to reflect complex needs and enable people to live in their local community. While the funding model for specialist supported housing has allowed some schemes to be built, demand from people stuck in hospital and expensive out-of-area placements greatly exceeds supply. Mental Health Act reform will significantly increase demand for suitable supported housing.

Allowing even a small element of public subsidy into the funding of the capital costs of specialist supported housing would unlock new funding opportunities from health and local authorities, and bring down the costs of borrowing and the benefit costs of high rents. It would keep properties within the social sector, empowering more traditional social landlords to operate in this space, rather than private developers who use expensive leasing arrangements to deliver a high return for investors.

9. Do you have views on other measures, outside rent policy, that could help to rebuild registered providers’ capacity to invest in new and existing homes?

Social housing rents cannot be a fix-all for all the financial pressures bearing down on social landlords, not least because affordability for tenants is such an important concern.

We welcome the government's intention to publish a long-term plan for housing, and hope that this sets out an outcomes-based framework that addresses:

- Child homelessness, including the out-of-control use of unsuitable temporary accommodation.
- Overcrowding.
- The severe shortage of social housing.
- Fuel poverty and poor housing conditions.
- Lack of affordability.

Action to address these issues will support the government's growth mission. Recent research from the NHF/Cebr shows that building 90,000 social homes would unlock £51.2bn in economic and social value as well as 350,000 jobs.

In the short term, grant funding for both new and existing homes is required to ensure that housing associations can continue to improve their existing homes and maximise the number of new homes they can deliver.

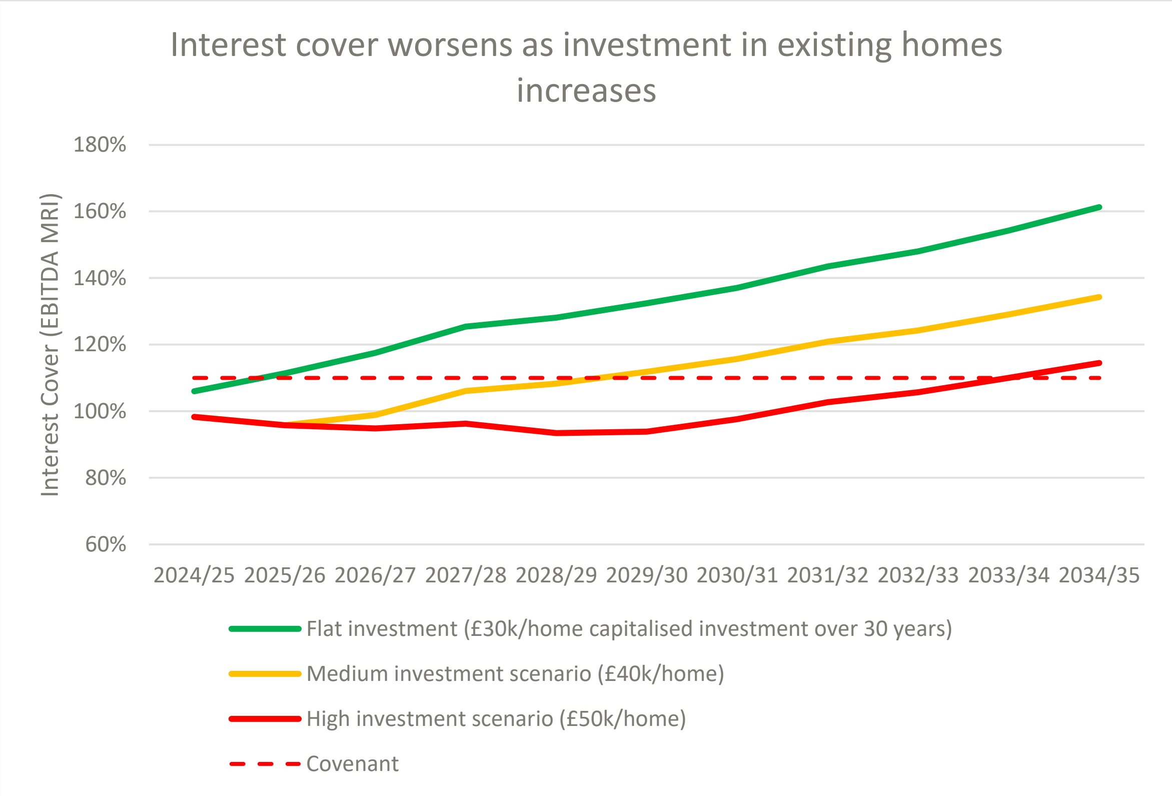
A separate package of measures, outlined below, is required to safeguard the viability of supported housing and housing for older people.

Existing homes

The need to invest in existing homes has never been greater. As outlined above, housing associations are spending record sums to improve the condition of the homes they manage, ensure they meet the required energy efficiency standards, and improve building safety. This work has been given additional impetus from the new consumer standards, building safety regime and net zero target, as well as the upcoming Awaab's Law and revised Decent Homes Standard.

However, action on these issues is expensive. The cost of decarbonisation is expected to reach at least £36bn by 2050, and immediate action is necessary to ensure all social homes reach at least an EPC C level by 2030. Currently, the forecast spend on building safety in the next five years is £4.5bn, much of which is borne by housing associations as there is no funding available for remediation of homes with social tenants. The costs of complying with Awaab's Law and the revised Decent Homes Standard are still unknown but are expected to be high.

Spending money on these areas erodes the financial capacity of housing associations. Under a 'high investment' scenario of £50k per home (up from £30k currently), based on modelling carried out by Savills for the NHF, sector-wide interest cover would fall to 93.4% absent additional grant funding. This situation would violate covenant agreements and to rebalance their finances, housing associations would almost certainly have to rule out any development of new homes, and likely sell some existing homes.



6 Modelling commissioned by the NHF from Savills

Therefore, any capital grant funding that alleviates cost pressures in these areas would unlock significant additional capacity. We suggest that total funding for investment in building safety, quality and decarbonisation should reach about £2bn per year for the next decade, in order to unlock sufficient financial capacity for housing associations to rapidly ramp up delivery to over 100,000 homes per year.

This could be achieved as one large social housing investment fund, or via existing schemes, such as:

- An expansion to the Warm Homes Programme.
- Extending the Building Safety Fund/Cladding Safety Scheme to social housing residents.
- A new grant funding pot for upgrading existing homes linked to the requirements of the revised Decent Homes Standard.

New homes

Any funding through rental income or grant for existing homes will free up financial capacity for housing associations to take on debt to develop new homes.

However, an appropriate grant funding regime for new homes is a key piece of the puzzle and we urge the government to press ahead with its plans for the successor to the 2021-26 Affordable Homes Programme.

To maximise the number of new homes delivered, including for social rent, we need a new, very ambitious affordable homes programme. Grant rates should be sufficient to enable development of social rented homes at scale, and there should also be provision made for regeneration programmes.

Supported housing

The government's recent Supported Housing Review calculates the significant level of unmet need for housing with support and/or care and the increased demand due to population changes. Despite high demand and demonstrable cost savings and improvements in our quality of life, supported housing is facing severe financial pressure with schemes at risk of closure.

Alongside longer-term certainty on rents, housing associations need appropriate and flexible levels of grant funding that reflect the additional costs of building and maintaining specialist housing schemes. Higher grant rates would unlock private investment, allow homes to be built at rents within the rent standard and reduce reliance on expensive private sector leasing arrangements.

To allow local authorities to retain and commission much-needed new supported and older people's housing, the government should ringfence housing-related support funding to ensure spending at least matches the £1.6bn per year allocated to local authorities in England in 2010. This would help unlock the development of new schemes needed to meet growing needs and reduce residential care spending.

Supported housing and housing for older people could play a major role in meeting this government's ambition on prevention in health and social care. The government should take the opportunity of the implementation of the Supported Housing (Regulatory Oversight) Act to support local and combined authorities to improve their capacity for strategic commissioning of specialist housing services. These services are proven to be cost effective but effective commissioning and planning is needed to ensure the right building or service exists in the right place to meet local needs. A lot of work went into preparing for the Housing Transformation Fund announced as part of the 2021 Health and Social Care White Paper. The £300m DHSC funding was then removed. This should be reinstated and this work restarted.

10. Do you have any comments on the detail of the draft direction and policy statement that are not covered by your responses to the previous questions?

We broadly welcome the changes which overall promote simplicity and clarity.

We have a specific concern around the removal of the clause on the social rent ‘floor’ on affordable rents. In a small minority of situations where social rents are higher than 80% of market rents (i.e. the level affordable rents are typically set at), this floor is used to determine the affordable rent level. Removing this floor would result in a reduction in income for some providers. We would also welcome further clarity around the treatment of service charges in this situation.

If you would like to speak to us about this, please email Alistair Smyth, Director of Policy and Research at the National Housing Federation on Alistair.Smyth@housing.org.uk.