Annex K2

Rent Affordability and Market Context Report

February 2023

7 February Cabinet: Council Budget 2023/24 and Medium-Term Financial Plan 2023/24 - **Annex K2**

Natasha Hutchin, Head of Finance

Contents

1. Purpose and executive summary

1.1. This report presents information on the current social housing and open market rented properties sector for the Milton Keynes and neighbouring local authorities, together with other registered providers of social housing operating in those areas.

1.2. Our rent policy outlines our approach to offering social formula and social affordable rents, as defined by the sector. The income generated from the blend of rent types underpins MKCC's income stream within the HRA business plan and the provision of its services.

1.3. Our arrears do not indicate an inability of our residents to afford our rents as the majority of our properties are general need at social rent levels. Furthermore, we have a constant demand for our properties from customers for whom our rents have been assessed as affordable.

1.4. This report is written to ensure Members of the Council understand the principles of the new Rents Standard and ensure that decisions in respect of rent setting give appropriate consideration to the local housing market context, demand for housing, and measures highlighting local economic factors, e.g. affordability.

1.5. Using a measure from Shelter UK, where a person has housing costs by way of rent or mortgage payments which are greater than 35% of their net income[1], the MKCC rent roll for rents charged in 2021-2022 still showed that 99.3% of our rents, excluding service charges, were below this threshold for our region. Whilst this is not an exact science or a measure, it demonstrates clearly that our rents are affordable.

2. Recommendations

2.1. This report is submitted to Cabinet and Members of the Council to provide them with market context in respect of Milton Keynes City Council's rents and service charges, to show compliance with the Regulator of Social Housing Rent Standard.

2.2. Members are asked to approve the annual uplift of social housing rents as set out in the annual budget report.

3. Key findings

3.1. In MKCC's corporate plan, we explicitly pledge our commitment to providing low-cost homes for rent and shared ownership for those who can't afford to meet their housing needs in the private sector.

3.2. A review has now been undertaken of the principles of the new Rent Standard and ensure that decisions in respect of rent setting give appropriate consideration to the housing market, demand, and affordability.

[1] https://blog.shelter.org.uk/2015/08/what-is-affordable-housing/

3.3. The review has considered the following key areas which are set out in detail in Appendices 1 to 10, as listed below -

Appendix 1: Background
Appendix 2: Average social formula rents (SR) per bed size
Appendix 3: Average social affordable rents (AR) per bed size
Appendix 4: Rent caps
Appendix 5: Affordability – average earnings vs rents
Appendix 6: Supply and demand
Appendix 7: Payment of rent – current tenant arrears
Appendix 8: Equality and diversity
Appendix 9: Key highlights from 2021-2022 Housing Survey report
Appendix 10: MKCC response to social housing rents consultation

3.4. MKCC general need stock equates to 72% of the total MKCC stock, which includes leasehold, shared owners, and those applicants in temporary accommodation, generally sit below the local, as well as the national averages, as detailed in **Appendix 2**.

3.5. As part of our lettings process prospective tenants have an income assessment completed to ensure that they can meet their rental payments. If they fail the assessment, they are not offered the accommodation.

3.6. As presented in **Appendix 3**, currently MKCC social affordable rent properties equate only to 1.5% of MKCC's total stock. The data shows that in our operational area an average MKCC AR is approximately 56% less than any equivalent open market rent set at the 80% threshold. When compared to other RP's operating in our area MKCC AR are on average 12% more.

3.7. Social housing formula rents are limited by a rent cap. This cap is the maximum rent that a landlord can charge for a property by size. The cap is increased annually by CPI as at the previous September 2022, which was 10.1% plus 1.5%. No MKCC properties have rents limited by the national rent cap. **Appendix 4**.

3.8. Using a measure from Shelter UK, where a person has housing costs by way of rent or mortgage payments which are greater than 35% of their net income, MKCC rent roll for rents charged in 2021-2022 showed that 99.3% of our rents (excluding service charges) were below this threshold for our region.

3.9. As of November 2022, in Milton Keynes there were 1,502 households on the housing needs register seeking accommodation. **Appendix 6**.

3.10. As of December 2022, 26% of our current tenants owed some form of current tenant rent arrears. Most tenants owing arrears had an arrears level which is less than one week's gross rent. Around 1.1% of tenants owed over £1.2 m. **Appendix 7**.

4. Appendixes

Appendix 1: Background

1.1. Since April 2001 the Government has tightly controlled social housing rents with the introduction of Formula rents in 2001-2002 commencing its 10-year rent restructuring policy, intending to rebalance social housing rents across the county using a target formula based on local earnings, property size and a valuation, set at January 1999.

1.2. The rent policy allowed landlords to apply a 5% (general needs) and 10% (supported housing) above target rent flexibility to its rents. From February 2022 we have applied this rent flexibility on all new lettings.

1.3. April 2011 saw the Homes and Communities Agency (now Homes England) introduce affordable rents allowing developing registered providers to convert lower formula rents to affordable rents, thus increasing rental income, together with pipeline developments with Section 106 agreements where affordable rented properties were built. Currently MKCC has around 231 affordable rented properties.

1.4. From April 2015 High Income Social Tenants (HIST) was introduced for RP's if they wished to charge households with income greater than £60,000 a higher than social rent. MKCC has previously decided not to administer HIST rents for any of its social housing stock.

1.5. The Government's previous rent policy came into operation in April 2016, resulting in all social housing rents being reduced by 1% per annum for a 4-year period ending in 2019/20. MKCC applied this policy resulting in an overall rental income loss of £300m (300 hundred million pounds) to the HRA business plan.

1.6. A policy statement in February 2019 from the Ministry of Housing, Communities and Local Government re-instated the rent increase of September CPI +1% each year for social housing rents from 1 April 2020 for a 5-year period, which was closely followed by the Secretary of States Direction on the Rent Standard 2019, a direction to the Regulator for Social housing.

1.7. In the Autumn statement, the Government confirmed the outcome of the Department for Levelling Up, Housing and Communities consultation in respect of rent setting for social housing provided by registered providers. Direction was given to the Regulator of Social Housing to issue a revised Rent Standard which sets a maximum rent increase for **current tenants** at 7% for all rent increases taking place from 1 April 2023.

1.8. The regulations allow the current maximum increase in social formula rents for new lets to be set at CPI as of September. For the 2023/24 rent year this would be at 11.1%. We will increase all our social rented properties rent by 11.1%, and cap rents for current tenants at the 7% level.

The following detailed appendices highlight the overarching principles of the current Rents Standard and ensure that decisions in respect of rent setting give appropriate consideration to the local housing market, demand, and affordability.

Appendix 2: Average social formula rents (SR) per bed size

The Welfare Reform and Work Act 2016 and associated statutory instruments categorise properties for the purpose of the Rent Standard and its guidance. **Table 1** below shows MKCC total, current stock, by category.

Table 1. MKCC all stock by tenure type

Tenure Type	Number of properties	Percentage Share	Rent Standard
General Needs	10680	69.6%	Y
Leasehold	1658	10.8%	N
Shared Ownership	1501	9.8%	N
License/Homeless	1179	7.7%	N
Affordable Rent	231	1.5%	Y
Supported	74	0.5%	Y
NSAP (Next Step Accommodation Programme)	30	0.2%	Y
Total stock as of 20 December 2022	**15353**		

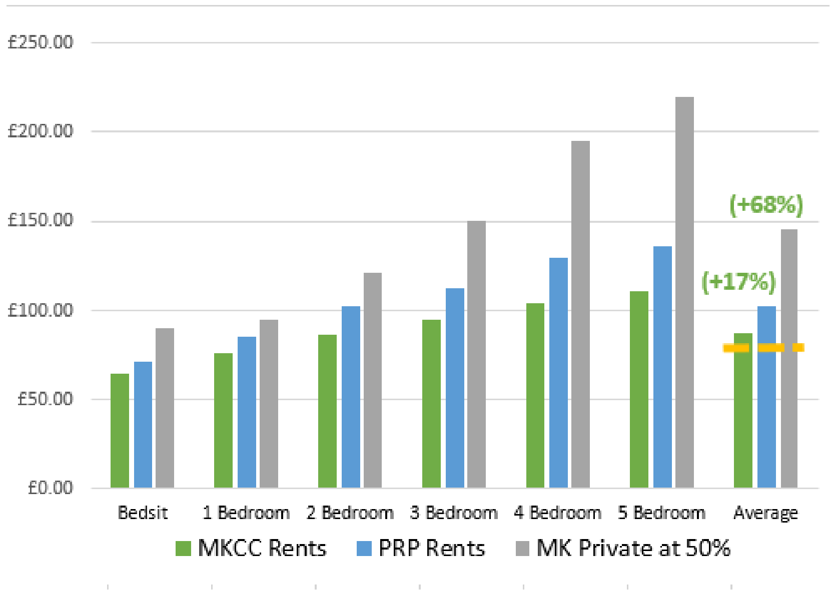
*Some categories are outside of the Rent Standard and are shown with an "N" in the Table.

To demonstrate where our rents sit within our operational area, we have taken the data from the last Statistical Data Return 2021-2022[2] and compared our current rents with 45 local authorities, as well 321 housing associations operating in South-East. We have also compared our rents with properties offered on a private housing market, in Milton Keynes, and the surrounding geographical areas of: Central Bedfordshire, Bedford, Aylesbury Vale, and South Northamptonshire.[3]

The details showing social formula rents are presented in **figures 1-5**, and social affordable rents in **figures 6-10**.

[2] Registered provider social housing stock and rents in England 2021 to 2022 - GOV.UK (www.gov.uk)
[3] Valuation.hometrack.com

Figure 1. MKCC average social formula rent by bed size in 2022/2023 in comparison to average rents of local PRPs, and private rents set at 50% of the actual rent.



Our social formula rents, which equate to 70% of our stock, on average are 17% lower than comparable rented stock offered by local private registered providers, and 68% lower than the comparable rented stock at 50% offered by local private landlords.

As presented in **figure 2**, our social formula rents, on average sit lower than comparable stock offered by registered providers in South-East, and in England as a whole. The difference ranges between 3% and 28%.

Figure 2. Average social formula rent (per week) for Milton Keynes, South-East, and England – local authorities and housing associations (general needs)

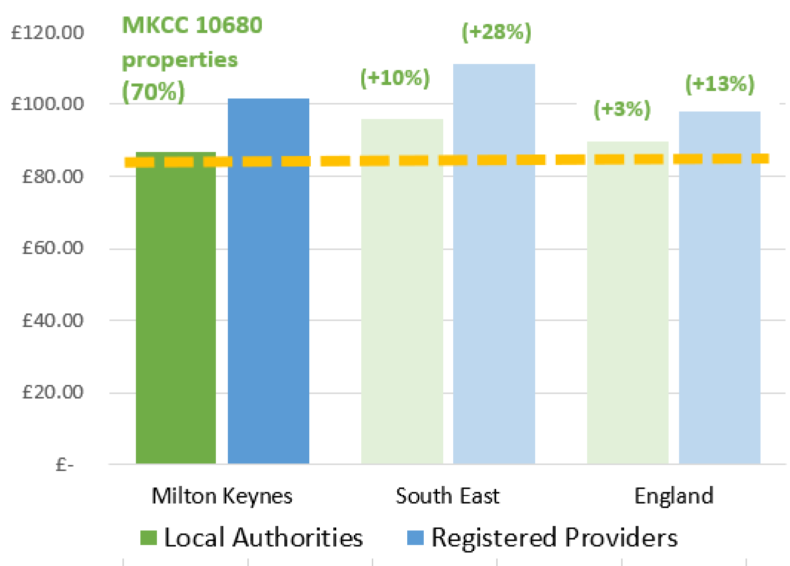
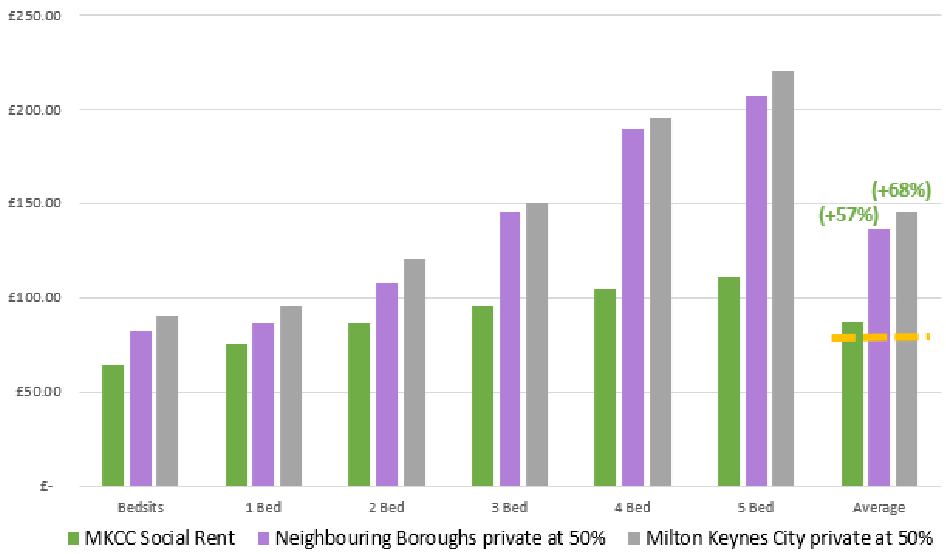


Figure 3. Average social formula rent (per week) for MKCC, and neighbouring geographical areas, with rents set as average between local authorities, and housing associations operating in those areas (general needs)

As presented in **figure 3**, MKCC general need rents, on average are one of the lowest levels when compared with local authorities and/or registered providers operating in those areas.[4]

Figure 4 below shows a comparable set of rents for our properties at social rent when compared to 50% of rents in the private sector in Milton Keynes and surrounding neighbourhoods.

Figure 4. MKCC average social formula rent (per week) by bed size 2022/23 compared to open market rents set at 50%

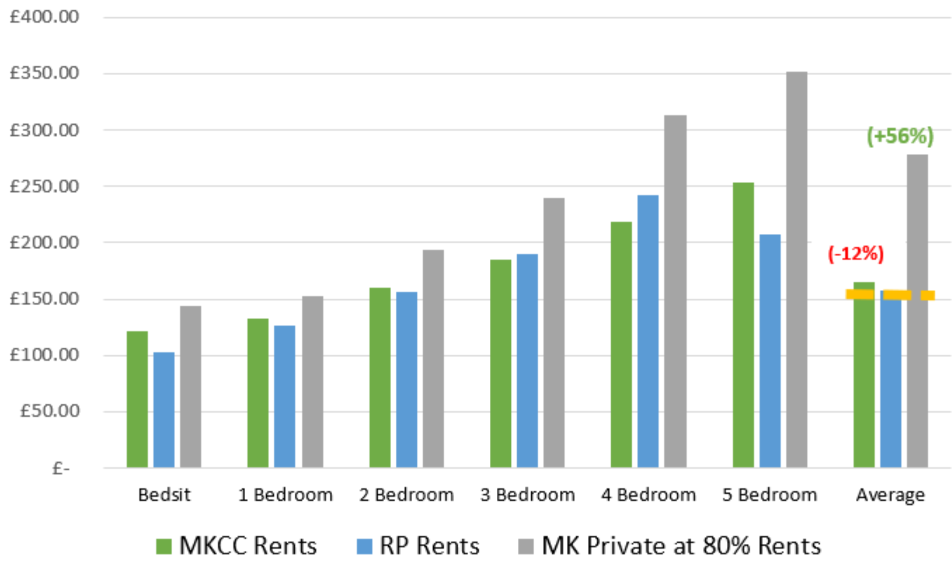


[4] Presented values are the average rent levels between LARPs and PRPs as in part of selected area no LARPs are operating.

Appendix 3: Average social affordable rents (AR) per bed size

MKCC currently have 231 social affordable rented properties making up 1.5% of our stock. Social affordable rents are inclusive of service charges. To compare the level of our social affordable rents with open market rents we have obtained rents data for properties offered on a private housing market, in Milton Keynes, and surrounding geographical areas, to include Central Bedfordshire, Bedford, Aylesbury Vale, and South Northamptonshire.[5] The **figures 5-9** below show the results by property size against commercial rent level set at 80% of the actual rent.

Figure 5. MKCC average gross social affordable rent (per week) by bed size 2022/23 in comparison to average rents of local PRPs, and private rents set at 80% of the actual rent.



Figures 5, 6, 7 show that on average, MKCC social affordable rent properties, which currently equate to 1.5% of our stock, on average sit 12% higher than the rent set by PRPs operating in Milton Keynes, on average 9% higher than the rent set by LARPs and PRPs operating in the region, and between 26 and 24% higher than the average rent set by LARPs and PRPs in England, and 56% lower than comparable properties in Milton Keynes with private rent set at 80% of the actual rent.

[5] valuation.hometrack.com

Figure 6. Average social affordable rent (per week) for Milton Keynes, South-East, and England – local authorities and housing associations

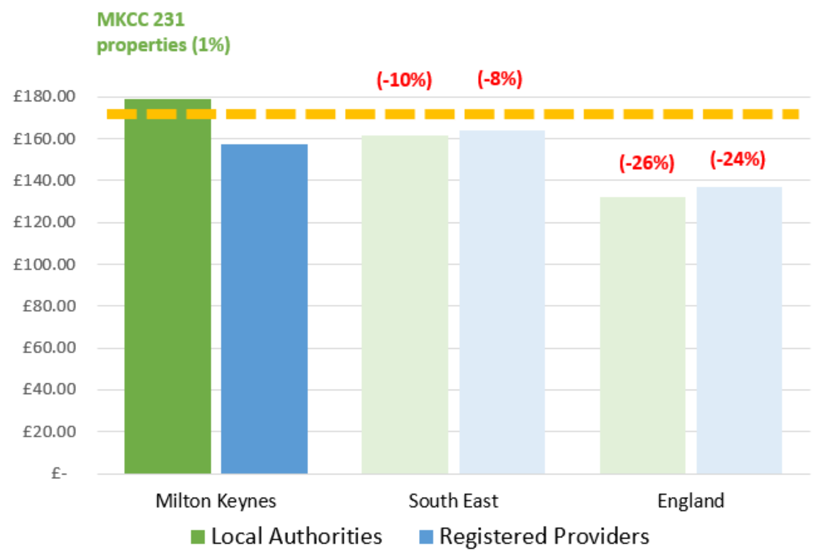


Figure 7. Average gross social affordable rent (per week) for MKCC, and neighbouring geographical areas, with rents set as average between local authorities, and housing associations operating in those areas

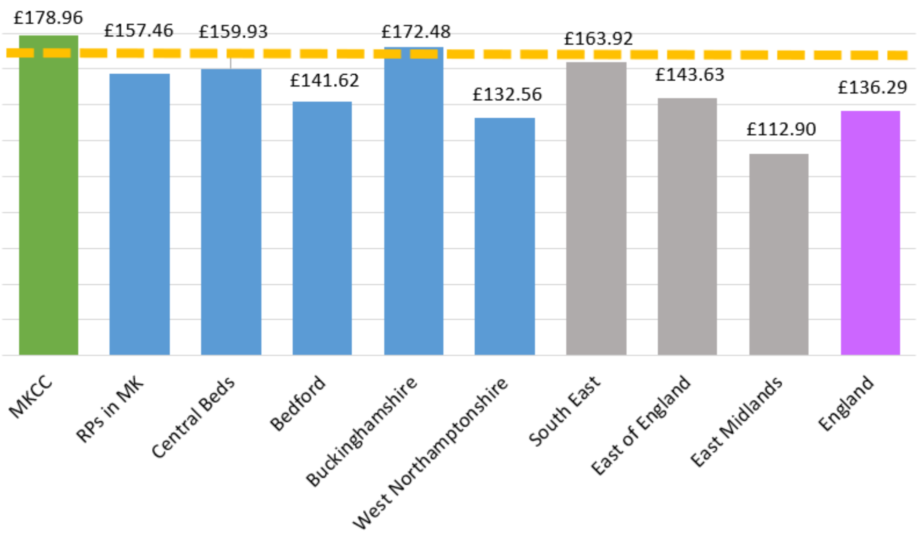
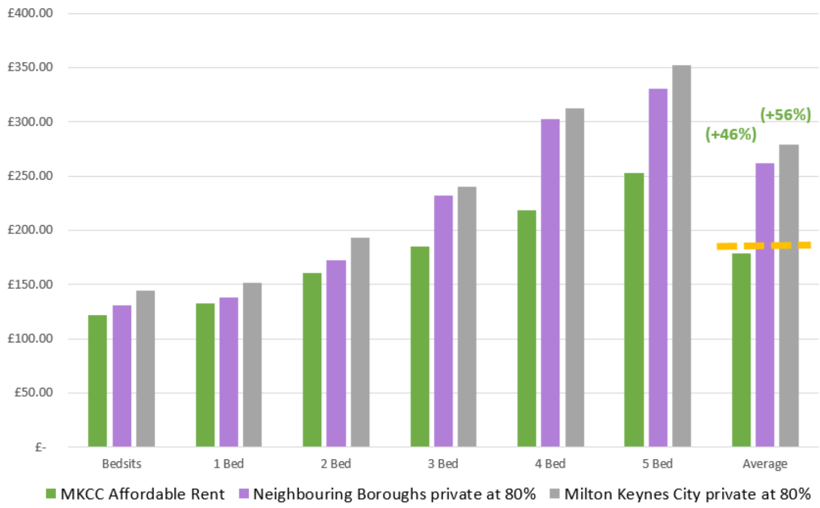


Figure 8 shows that on average, MKCC's social affordable rent is between 46% and 56% lower than any equivalent open market rent set at 80%.

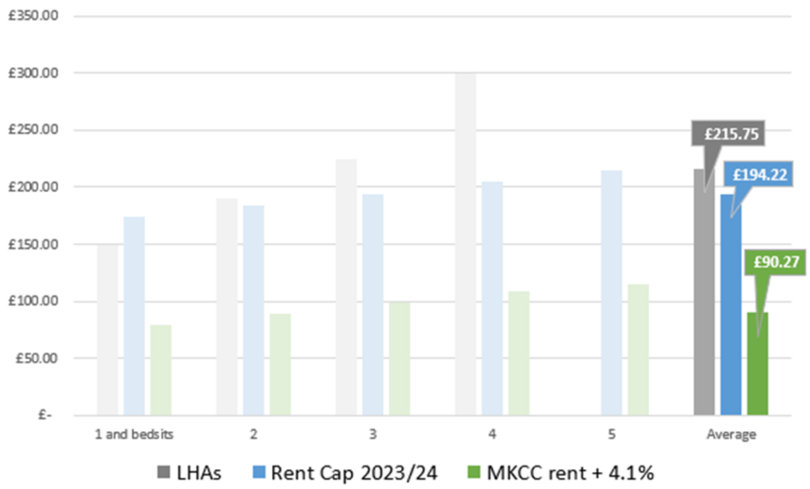
Figure 8. MKCC average social affordable rent (per week) by bed size 2022/23 compared to open market rents set at 80%



Appendix 4: Rent caps

The Rent Standard restricts all social housing rents to a maximum of the rent cap. The current cap levels are shown in **figure 9**. We have compared them with Local Housing Allowance and MKCC social formula rents. In **Table 2** below, we make a similar comparison, but in addition to LHA, rent cap, and MKCC rents, we also added MKCC rents increased by 7%, and 11.1%, to reflect proposed rent increase options for 2023/24.

Figure 9. LHA, and rent cap levels per property size for 2023/2024[6], in comparison to MKCC social formula rents increased by 4.1%*



**4.1% increase has been added to represent 2021/22 rent increase that was not reflected in the Government's data we used in this report. The 4.1% does not consider rent flexibility of 5% in the majority of rent paid by current tenants.*

[6] Social housing rents consultation - GOV.UK (www.gov.uk) - As on the day of finalising this report the rent cap data has not yet been released, we add to last year levels, the predicted 11.6 % increase, which represent current CPI + 1.5%

Table 2. LHA, and rent cap levels per property size for 2023/2024, in comparison to MKCC social formula rents increased by 4.1%*, further increased by 7%, and 11.1%, what represents the proposed MKCC rent increase options for 2023/24

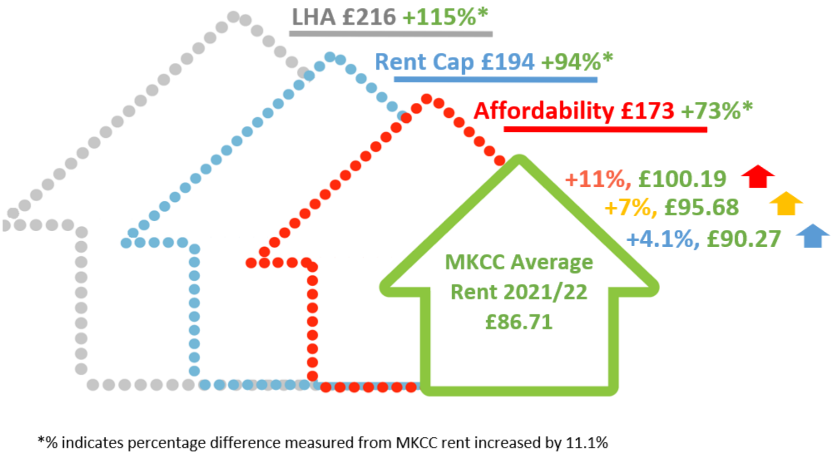
No of bedrooms	LHAs	Rent Cap 2023/24	MKCC rent + 4.1%	MKCC rent + 7%	MKCC rent + 11.1%
1 and bedsits	£ 149.59	£ 173.79	£ 79.00	£ 84.53	£ 87.69
2	£ 189.86	£ 184.00	£ 89.56	£ 95.83	£ 99.41
3	£ 224.38	£ 194.22	£ 98.85	£ 105.77	£ 109.73
4	£ 299.18	£ 204.43	£ 108.52	£ 116.12	£ 120.46
5	N/A	£ 214.66	£ 115.62	£ 123.72	£ 128.34
Average	**£ 215.75**	**£ 194.22**	**£ 90.27**	**£ 96.58**	**£ 100.19**

*The 7% and 11.1% increases are measured from *the starting point of 2021/2022* MKCC rent + 4.1% level.

Where approval is given to increase rents by 11.1% and capped at the maximum 7% laid down by the regulator our rents would still be considerably lower than the rent cap and the LHA.

Figure 10 presents percentage differences between MKCC social formula rent increased by 11.1%, and the LHA, rent cap, and affordability level.

Figure 10. MKCC average social formula rent in 2022/2023 increased by 11.1%, in comparison to LHAs, rent cap set at the levels for 2023/24, as well as affordability level set as 35% of local, average, annual gross wage.



Appendix 5: Affordability – average earnings vs rent

Landlords must consider whether their rents are affordable, in respect to local market context. To review this, we have obtained data from the Office of National Statistics (ONS) showing average earnings by region, and the annual wage increase, details of which are shown in **figures 11 and 12** below.

Weekly earnings in MK increased in 2022 by 8.6% year-over-year, what represented one of the highest wage increases in comparison to neighbouring unitary authorities. In England, the average increase was at 5.2%. Weekly earnings in Milton Keynes on average were higher in comparison to other regions in the UK as presented in **figure 11.**

Figure 11. Median gross weekly earnings for full-time employees as of April 2021, and April 2022[7]

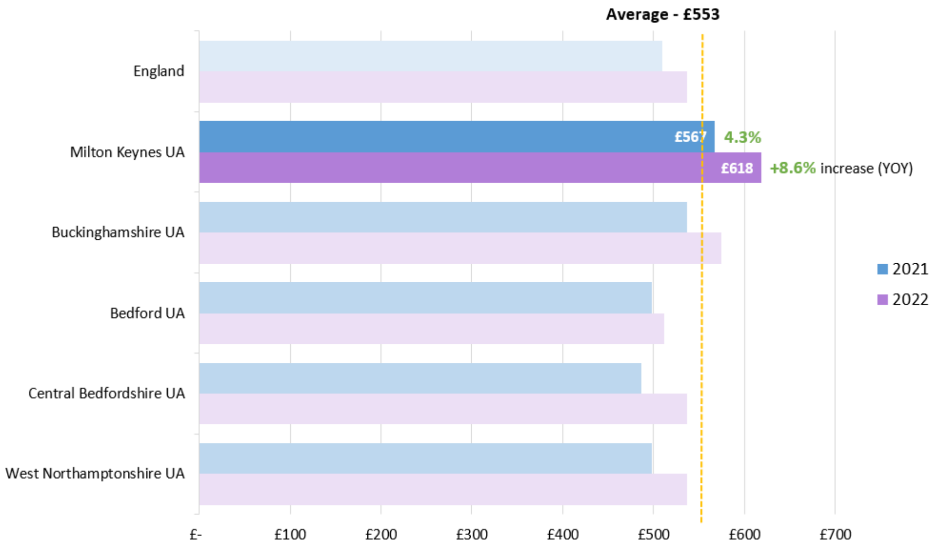
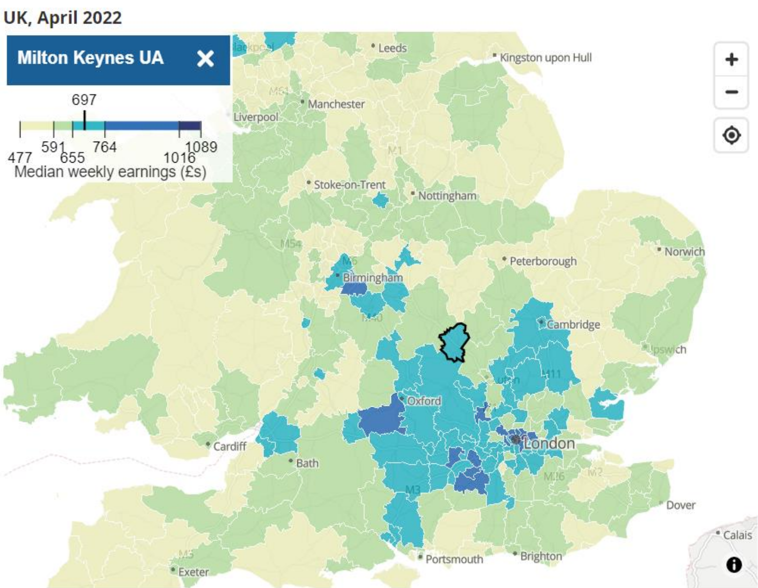


Figure 12. Median gross weekly earnings for full-time employees as of April 2022[8]



[7] [Employee earnings in the UK - Office for National Statistics (ons.gov.uk)]
[8] [Employee earnings in the UK - Office for National Statistics (ons.gov.uk)]

To analyse how average, weekly earnings in Milton Keynes correspond to rent affordability, we have calculated the 'take home pay' as per **table 3**. The data shows what the take home income would be for a single resident paying basic rate tax and national insurance.

Table 3. Take home income summary (MK area)[9]

	Year	Month	Week
Gross Wage	£ 32,136	£ 2,678	£ 618
National Insurance	£ 2,520	£ 216	£ 50
Tax Paid	£ 3,913	£ 326	£ 75
Take Home Pay	£ 25,703	£ 2,136	£ 493
Affordability Level*			£ 173

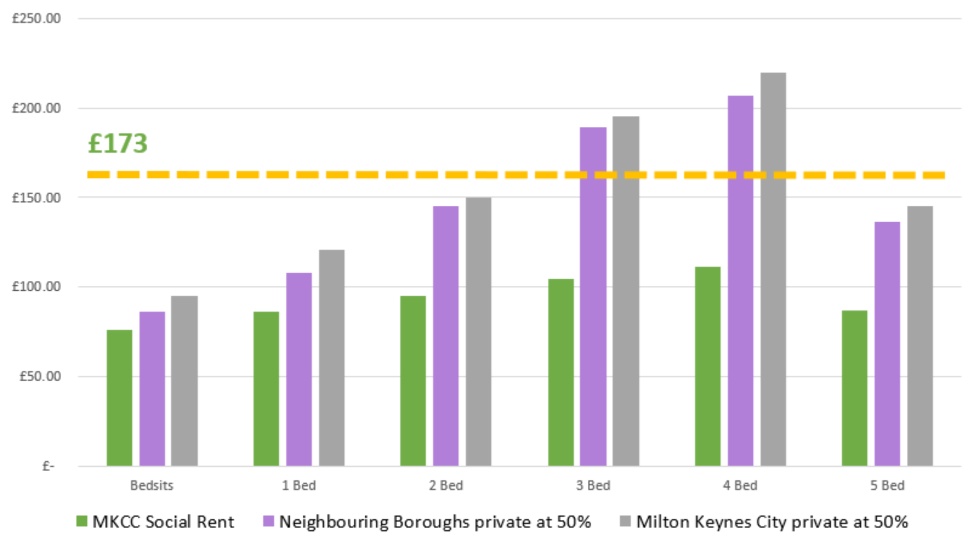
*calculated as 35% of weekly Take Home Pay

Note: affordability is calculated per person

According to Shelter UK, where a person has housing costs by way of rent or mortgage payments which are greater than 35% of their net income, their housing costs could be deemed to be unaffordable.

Taking the April 2022 average 'take home pay' in Milton Keynes of £493 shown above, this would mean that rent over £173 per week could be considered unaffordable. Taking into consideration the highest rent levels offered by MKCC to our residents, it indicates that all our social formula rent (excluding service charges) properties were below this threshold. Whilst this is not an exact science or measure, it does suggest that our rents are currently affordable. **Figure 13.**

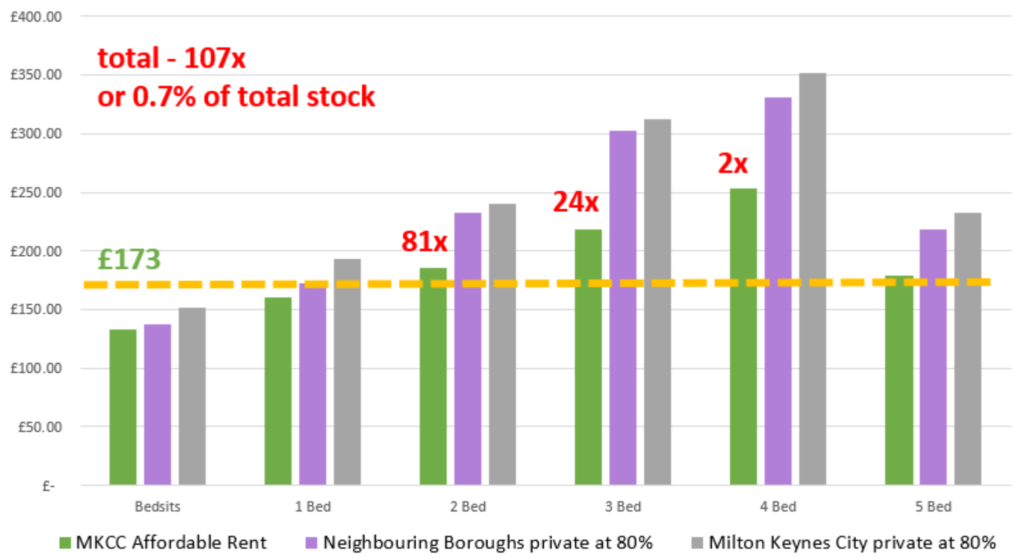
Figure 13. MKCC average social formula rent levels by bed size in 2022/23, in comparison to affordability level for MK



[9] Income tax calculator: Find out your take-home pay - MSE (moneysavingexpert.com)

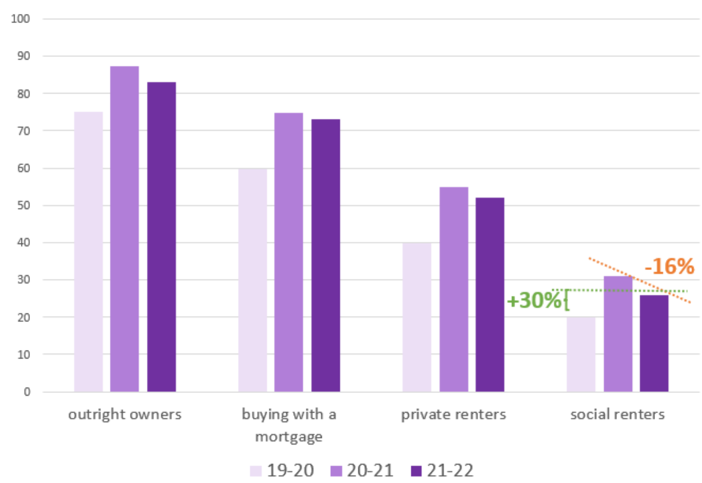
There are currently some MKCC properties that are above the affordability level set at £173. This represents 107 social affordable rent properties, which is 0.7% of MKCC stock. **Figure 14.**

Figure 14. MKCC average social affordable rent levels by bed size in 2022/2023, in comparison to affordability level for MK



A recently published English Housing Survey report[10], indicated that although savings across all tenancies have decreased in 2021-2022 due to growing costs, the savings remained above the levels before the pandemic. Social renters on average in 2021-2022 still had 30% more savings than in the same period in 2019-2020. **Figure 15**. More highlights from the report are presented in the **Appendix 9.**

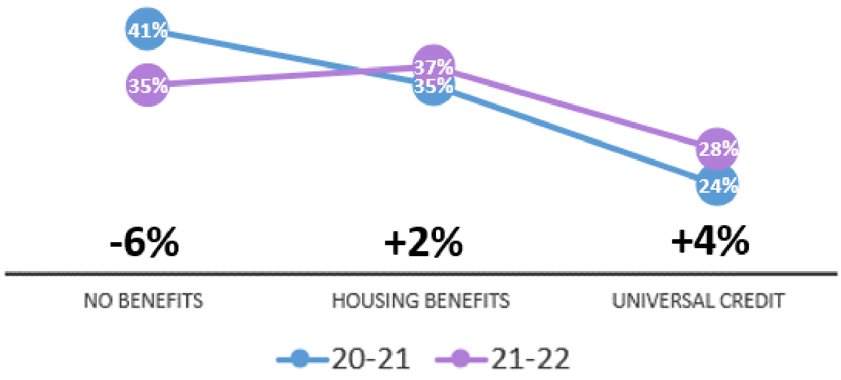
Figure 15. Proportion of households with savings, by tenure, 19-20, 20-21, and 21-22



[10] [English Housing Survey 2021 to 2022: headline report - GOV.UK (www.gov.uk)]

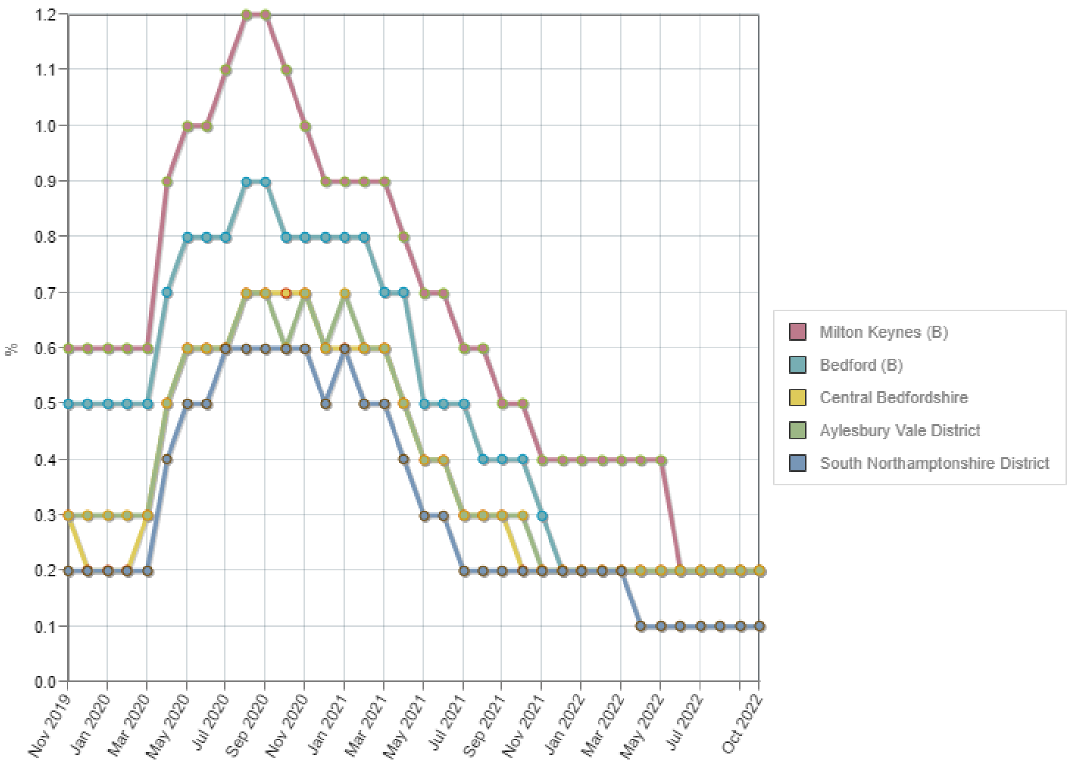
Figure 16 below, shows the breakdown of current tenants and their benefit status. In 2021-2022 there has been a 6% increase in the number of tenants receiving benefits. 2% more were in receipt of Housing Benefit and 4% more in receipt of Universal Credit. The trend could be the consequence of Covid-19 pandemic.

Figure 16. MKCC tenants and benefits status as of December 2022



As presented in **figure 17**, the pandemic resulted in increased unemployment, however since September 2020 this has fallen sharply. Currently in MK it is at 2%, down from 12%. In the UK the average unemployment is 3.7%.

Figure 17. Unemployment 2019-2022 trend



Appendix 6: Supply and demand

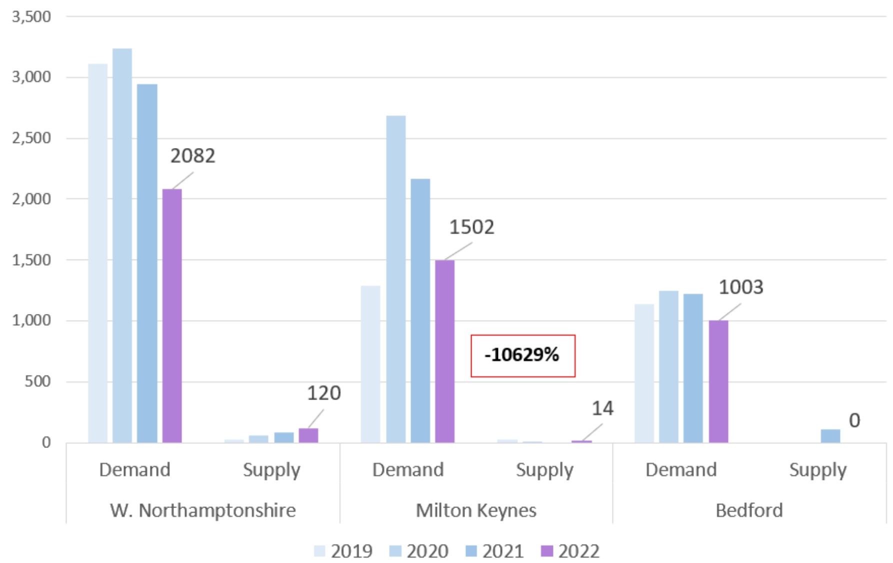
Nationally, there continues to be a greater demand for new housing than the supply. The Government's rent policy was aimed at allowing housing associations and local authorities to increase their rental income over the next 5 years with expectations that the social housing sector will lead on the delivery of new homes.

Subsequent changes to the Government's rent policy have capped the ability to increase rents in line with the inflation leaving a deficit between rising costs of labour, materials, and energy against a reducing stock.

Data from the Statistical Data Return (SDR) 2021-2022 shows across our operating area there were 9,161 (6,468 previously) general needs units managed by RPRs, and 10,880 (10,271 previously) units managed by MKCC, and a further supported housing units of 1,203 (876 previously) managed by RPRs, and 92 (868 previously) managed by MKCC.[11]

As of November 2022, in Milton Keynes there were 1502 (2,563 previously) households on the housing needs register, seeking accommodation. At the same time, the supply of affordable housing by Milton Keynes City Council in 2022 was 7 new properties. The supply of social housing by registered providers operating in Milton Keynes area was 615. A very similar dynamic, where demand for social housing exceeds by a high margin the supply, we can see also in the neighbouring towns as presented in **figure 18.**

Figure 18. Number of applicants for social rent housing, and supply of new social rent housing between 2019-2022[12]



[11] Local authority registered provider social housing stock and rents in England 2021 to 2022 - GOV.UK (www.gov.uk)
[12] Local authority housing statistics data returns for 2021 to 2022 - GOV.UK (www.gov.uk)

Appendix 7: Payment of rent – current tenant arrears

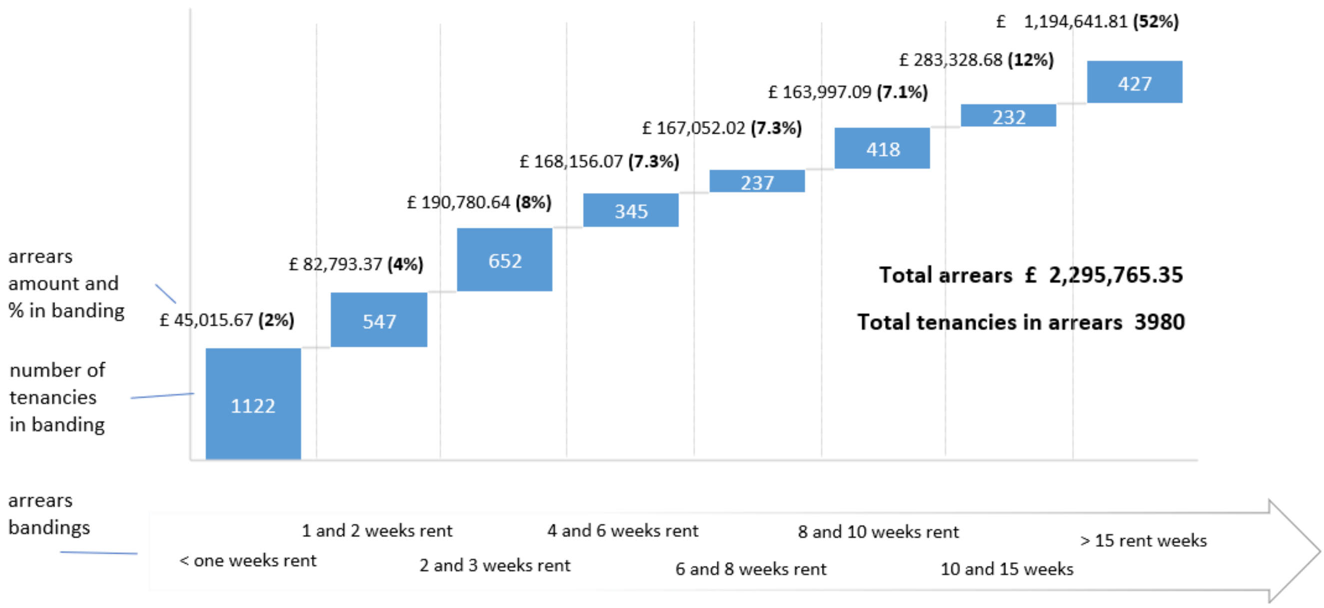
Rent arrears can occur for a variety of reasons such as:

- Welfare benefit changes and delays
- Economic shock e.g. unemployment
- Changes in employment status
- Health and welfare issues
- Vulnerabilities e.g. dependencies and mental health issues
- Poor decision making e.g. non-prioritisation of rent payments
- Dissatisfactions with living conditions e.g. disrepair

As of 29 December 2022, 3980 of our social formula rent tenants were in arrears, which represented 26% of all tenants. In the same period, 122 social affordable rent tenants were in arrears, which represented 0.8% of all tenants. Total arrears owed to MKCC on the 29 December 2022 were at £2,295,766.

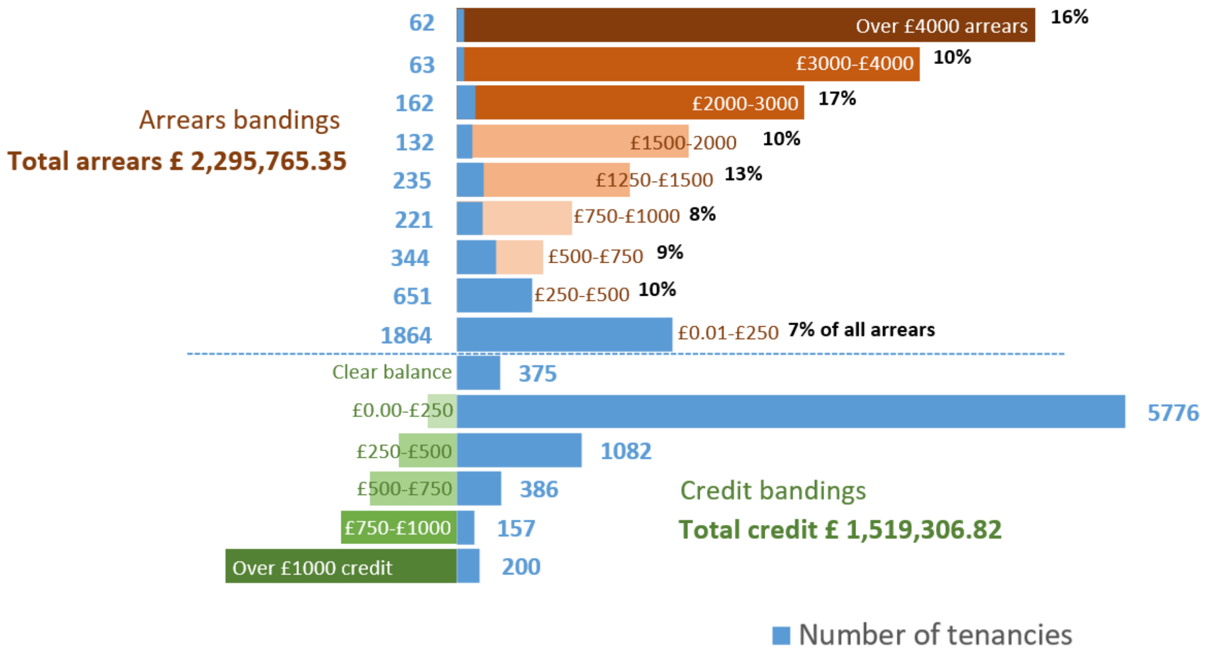
Figure 19 shows the amount of arrears the amounts of arrears owned, and the number of tenants split by the number of gross rent weeks due.

Figure 19. Number of tenants in rent arrears by arrears banding presented as number of rent weeks in arrears per tenancy



Total arrears owed to MKCC as of 29 December 2022 were at £2,295,766, of which: 26% between £3000 or higher, 27% between £3000 and £1500, 21% between £1250 and £750, and 26% between £750 and 0.01. Of 11710 tenancies included in this analysis, 7976 or 68.1% were not in arrears, 3080 or 26.3% were in arrears up to £1000, and 654 or 5.6% in arrears more than £1000. **Figure 20.**

Figure 20. Number of tenants in rent arrears by arrears banding presented as number of rent weeks in arrears per tenancy



Appendix 8: Equality and Diversity

Equality and diversity – "RP's must comply with the requirements on rent setting in the Rent Standard 2020, and any subsequent Rents Standards published by the Government, they remain under their own equality duties to ensure that their decisions on rent setting support the requirements of the Equality Act 2010 and meet all aspects of the general duty".

MKCC Rent Policy is followed in conjunction with our Equality and Diversity Strategy and has been subject to an Equality Impact Assessment.

The policy is applied to our customers to ensure they have equal access to our services, information and that we respect their different needs. All customers will have access to this document upon request or from our website. The policy and any accompanying leaflet can be translated or provided in alternative formats (e.g., Braille, large print, audio) upon request, subject to reasonable cost.

Equality and Diversity training is mandatory for all staff.

Appendix 9: Key highlights from 2021-2022 Housing Survey Report

Introduction

Some of the key headlines relevant to our report, showing both positive, and negative impact on rent affordability are as follows -

Main findings

- Owner occupation remains the largest housing tenure in England (representing 64% of all households) and has seen a small increase compared to 2016-2017.
- After nearly doubling in size since the early 2000's, the private rented sector has accounted for about one fifth of households in England since 2013-2014.
- The social rented sector accounts for 17% of households in England. Over the last decade, social housing provision has increasingly been supplied by Housing Associations.
- Across all tenures, and across nearly all individual measures, average personal well-being increased in 2021-2022, when compared to 2020-2021.
- Modelled data of occupied dwellings finds that the private rented sector remains the tenure with the highest proportion of non-decent dwellings, with nearly a quarter of dwellings failing to meet the Decent Homes Standard.
- Modelled data of occupied dwellings finds that a relatively small proportion of the overall housing stock has problems with damp, but this is more prevalent in some tenures than others.
- The energy efficiency of the English housing stock continues to improve, with significant increases in mean SAP (Standard Assessment Procedure) ratings seen over the past 25 years. Mean scores varied across tenures, with the social rented sector having the highest average SAP rating.

Trends in tenure

- The social rented sector, at 4.0 million households (17%), is the smallest tenure, following a longer-term downward trend which stabilised over the last decade or so.

Demographic and economic characteristics

- Among social renters, 44% were working, with 29% working full-time, and 15% working part-time; 8% of social renters were unemployed. Nearly half (49%) of social renters were retired, in full-time education or 'other'.
- Over half (54%) of households in the social rented sector had one or more household members with a long-term illness or disability. For private renters, this figure was 30%.
- 93% of households in England had internet access at home. This reduces slightly to 83% for social renters.

Housing costs

- In 2021-22, the average (median) mortgage payment was £154 per week. Between 2020-21 and 2021-22, the median mortgage payment in England increased from £145 to £154. Over the same period, the median mortgage payment in the rest of England increased by £5 from £138 to £143.
- In 2021-22 the average (median) rent (excluding services but including housing support) for social renters was £97 per week, and £173 for private renters.

Affordability

- On average, mortgagors spent 22% of their household income on mortgage payments, whereas rent payments including housing support were 27% for social renters and 33% of household income for private renters. Excluding housing support, the average proportion of income spent on rent was 36% for social renters and 38% for private renters.
- Between 2011-12 and 2021-22, the proportion of household income that mortgagors spent on their mortgage increased from 18% to 22%. The proportion of household income (including housing support) that private renters spent on their rent decreased from 35% to 33%. In the same period, the proportion of household income that social renters spent remained similar (28% in 2011-12 and 27% in 2021-22).
- Excluding housing support, the average proportion of income spent on rent was 40% for social renters and 44% for private renters.

Mortgage and rent arrears

- In 2021-22, most mortgagors reported they found it very or fairly easy to afford their mortgage (93%). However, 6% of mortgagers found it fairly difficult and 1% found it very difficult to afford their mortgage.
- In 2021-22, 3% of private renters reported being in rent arrears at the time of interview, and 4% reported that they had fallen behind with rent payments in the 12 months prior. This was similar to the proportion who reported being currently in arrears (4%) or in arrears in the 12 months prior (4%) in 2020- 21.
- Social renters were more likely to report being in rent arrears than private renters: 10% reported that they were currently in arrears, and 8% reported that they had fallen behind with payments in the 12 months prior to the interview. While there is an apparent increase in the number of social renters reporting rent arrears from 2020-21, this difference is not statistically significant.
- In 2021-22, just over a quarter of private renters (26%) reported finding it either fairly or very difficult to afford their rent, similar to the proportion in 2020-21 (25%). A similar proportion of social renters (25%) reported finding it either fairly or very difficult to afford

their rent. However, this is lower than in 2016- 17, when 32% of social renters and 31% of private renters reported finding it very or fairly difficult to afford their rent.

Housing Benefit

- In 2021-22, 57% (2.3 million households) of social renters and 25% (1.2 million households) of private renters received housing support to help with the payment of their rent.
- The proportion of social renters receiving housing support (57%) has remained similar in recent years at 60% in 2020-21 and 56% in 2019-20.
- Social renters in receipt of housing support received an average of £86 per week, lower than the average amount received by private renters (£127). The average amount of housing support received by private renters remained similar to 2020-21 (£128), and the average amount of housing support received by social renters remained similar at £85 in 2020-21.
- Almost a third (30%) of working social renters received housing support in 2021-22. This was lower for private renters, where 18% of working private renters received housing support in 2021-22

Savings

- For 2021-22, the proportion of households with savings has decreased compared to the year previous (2020-21). In 2021-22, 64% of households in England reported they had savings, compared to 68% in 2020-21.
- The proportion of social renters with savings decreased from 31% in 2020-21 to 26% in 2021-22, while the apparent decrease in the proportion of private renters with savings, from 55% in 2020-21 to 52% in 2021-22, is not statistically significant.

Future buying expectations

- Among social renters who expected to buy, 52% of local authority tenants expected to buy their current home, higher than the 33% of housing association tenants who expected to buy their current home.
- Social renters were less likely to expect to buy in less than two years (15%), and this remained similar to the proportion in 2020-21 (19%).
- There has been an increase in the average number of years that owner occupiers have spent in their current address, from 16.0 years in 2020-21 to 17.6 years in 2021-22. Length of time at current address has also increased for social renters, from 10.8 years in 2020-21 to 12.7 years in 2021-22.

Well-being and loneliness

- Personal well-being increased in 2021-22 compared to 2020-21. For all households, the average life satisfaction score increased from 7.3 to 7.5, the average score for thinking 'life is worthwhile' increased from 7.6 to 7.8, and average happiness scores increased from 7.2

to 7.5. Anxiety (where a higher score indicates higher levels of anxiety) remained similar at 3.0 compared to 3.1 in 2020-21. These increases were seen for both owner occupiers and social renters across all measures, except anxiety, which remained similar to 2020-21. There was no statistically significant difference for private renters in 2021- 22 compared to 2020-21 in any measure.

- These findings may suggest that there is a direct relationship between well-being and tenure. However, there were important differences between the types of households that typically live in each tenure, and these differences may be related to well-being. For example, social renters were more likely to be unemployed or 'other inactive' (this includes long-term sick or carers) than owner occupiers or private renters, as well as being more likely to be in the lowest income quintiles, Annex Table 1.3. Social renters are also more likely than private renters to have been in arrears in the past 12 months

Appendix 10: MKCC response to social housing rents consultation

Key points:

- **Housing Revenue Account** - rents reflect 96% of the annual income into the HRA. Whilst we may get through with a 7% increase next year, the HRA now has no resilience for any future unplanned events.

- **Increase cost for services -**
  - some areas of the budget have seen increases of 220% plus (energy)
  - and some cost of building materials have increased by 25%.
  - We are also likely to see higher increases in staff pay awards than previously budgeted.
  - Borrowing costs have soared and core assumptions of 2.5% borrowing levels could now be as high as 6%.

- **Impact of low rents**

  - Efficiencies - Reducing services provision to deliver services that affect safety and liability. (staff and contract implications) [rent and service charge review]

  - Planned Maintenance - Between 2019 and 2024 we had planned on investing £165m on our backlog maintenance programme and targeted increasing our stock decency levels but we are now reviewing our levels of decency and component replacement cycles (including void and new let standards) as this will be required to ensure that we are able to afford and remain compliant with health and safety requirements. These works will still need to be undertaken at later date, so this is also likely to cause further backlog programmes (and at higher costs) in the future.

  - Future developments - We have indefinitely paused our development schemes that are not yet on site or contractually committed (150 homes, c.£35m investment). Whilst we welcome use of Homes England Grant (HEG) and use of retained 141 Right to Buy (RTB) receipts, the cost of development (broadly increased by 25%), the increase in borrowing costs, uncertainty over the rent cap consultation outcome and general financial volatility and uncertainty means we cannot make any decisions on long term, significant investments. Both funding streams require use of our own funding so an increase in these levels or percentage of costs we can fund (i.e., 40% RTB), could help but won't completely reverse the position. Abandoning schemes will cost c.£1m in abortive costs and is significant waste of our tenants' money but with these proposals is now unavoidable.

  - Investment - We of course understand and recognise the challenges our tenants face and given the majority of tenants across social housing are in receipt of benefits and therefore the impact on the welfare bill, but ongoing uncertainty will destroy investment plans at the longer-term detriment of tenants.

- **Reducing bills for residents -** We welcome government funding support through areas such as the Social Housing Decarbonisation Fund (SHDF), but the match funding requirement means that we may not be able to afford to bid for this grant for wave two, which in turn does not benefit residents through reduced bills. Our wave one bid is expected to reduce household bills by over £400 per household – an 11% increase in rents would cost c. £487

Full response:

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?

No, we do not agree that social housing rent increases should be subject to a further ceiling (in addition to the cap already applied as part of the Rent Standard, i.e., CPI+1%). Had government not proposed a ceiling, we would have increased rents by the maximum allowed (CPI+1%) but introduced targeted support for those tenants who need it. We believe targeted support would be more effective and benefit current and future tenants far more than a blanket rent cap.

This is because:

1. The impact of this proposal and viability of our Housing Revenue Account (HRA) business plan, should not be assessed over a short-term period, such as 12 months. This proposal will have long term, devastating effects on our ability to invest in new council housing, improvements in decency and energy improvement works.

2. These works have a great impact on tenants' lives but also directly benefit household costs, by undertaking energy efficiency measures and ongoing improvements in decency, such as draft exclusions and damp and mould prevention works. These measures reduce energy usage and save tenants money, which will have a long-term impact as these areas of investment will be significantly delayed or stopped altogether. The significant reduction in investment (through our contractors and their supply chains) will also have a negative impact on the wider economy and inflation.

3. We have a number of services that provide support to our most vulnerable tenants, including support to gain employment, tenancy sustainment services, debt prevention measures and in 2022/23 we introduced a support fund to reflect the ongoing impact Covid-19 had on household finances. Under any of the proposed rent ceiling levels, we will need to scale back or more likely remove these services, which directly impact our most vulnerable tenants which will have greater long-term effects.

4. We will of course ensure that we continue to meet all our health and safety responsibilities as a landlord, but we will need to reduce investment in all other areas – this is challenging at a time where we are seeing increased regulatory requirements and carbon 2030 targets. We would request that if a rent cap were to be applied, that there is join up across government departments to understand how this will impact other department priorities, such as 2030 – there simply won't be enough money to deliver all of this.

5. We have c.800 households currently in temporary accommodation and 2,300 households on the housing register. Introducing a ceiling on social rents, further widens the gap between social and market rents, impacting our wider Council costs of supporting homeless families, as well halting our ability to commit to build new homes to meet the needs of these families.

6. As a new town (now city), we face an exceptional challenge regarding our stock profile as the majority of our stock is ageing and requiring investment at the same time, and this includes major planned maintenance such as roof replacements. We have also recently decanted two of our tower blocks (195 units), with demolition planned imminently due to fire safety concerns. Again, a cap would mean that we would need to curtail/defer our investment programme to deliver health and safety / compliance elements only and not take forward these sites for new homes – they will remain as abandoned sites for the long term with no financial means of taking them forward.

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)?

No, we do not agree with the principle of any ceiling and believe social housing providers should be able to consider their own circumstances when deciding on rent increases which was the premise of buying ourselves out of the subsidy scheme. In 2012 we paid £270m in the self-financing settlement payment, for which we are still paying the borrowing costs, yet have not had the control promised (the Rent Standard already applies a cap, we had a forced rent reduction under welfare reform and now a further ceiling is being proposed) – rents reflect 96% of the annual income into the HRA.

Applying a percentage cap (instead of a monetary increase), also does not reflect the different base position of each provider of social housing. **We (for various historic reasons) have very low rent levels comparable to the sector and very high demand and cost for private rental in the city. A 5% increase for us, represents just £4.25 (on average) per tenant per week (current average rent are £85.16 against local registered providers of £100.20 and £94.49 across the South-East of England).** We have updated our 30-year HRA Business Plan reflecting the change in economic circumstances together with the proposed cap on rents and this demonstrates that headroom for investments has significantly reduced across the long term [Redacted].

A summary of our evidence of the impact a cap at 5% and our rationale for not agreeing with any level of cap, are:

1. In February 2022, inflation assumptions were c.3% against estimates overall of 11% for 23/24 – some areas of the budget have seen increases of 220% plus (energy) and some cost of building materials have increased by 25%. We are also likely to see higher increases in staff pay awards than previously budgeted.

2. Borrowing costs have soared and core assumptions of 2.5% borrowing levels could now be as high as 6%. New build social housing schemes are challenging from a financial viability point anyway – and borrowing costs against capped rents mean current and future schemes will be impacted.

3. In most cases of expenditure, we are contractually committed linked to inflation and whilst we are working closely with our partners to reduce costs or jointly agree delays to programmes, this is time consuming and has legal implications, so we are reliant on working collaboratively with our partners. This is very challenging, given businesses are also impacted by the cost-of-living crisis.

4. In early 2020, there were great concerns across the sector about the impact of the Covid-19 pandemic on household finances and how this would impact rent collection and rent setting during these years. However, the majority of tenants continued to pay, and arrears only increased marginally – this was in part down to registered providers being able to support their most vulnerable tenants through specific support funds or resources to support with debt and general advice. We believe RPs are best placed to understand the challenges of their tenants and put in place targeted support, as we did during the Covid-19 pandemic.

These changes in assumptions mean that:

1. We need to make immediate revenue savings of between £2m (3%) in-year (22/23) and between £2m-£4m (3-7%) between in 23/24 and 29/30 – we have already acted by reviewing all vacancies, agency staff and general areas of efficiency and continue to review all areas of revenue spend, which will result in redundancies and changes to services that we are able to offer.

2. Our borrowing headroom has been eradicated – [Redacted], meaning we will need to review all existing commitments. We estimate additional headroom not being available until 2030/31, and this is still marginal at this point, at c.£20m (based on our core assumptions, although these continue to change due to the general economic uncertainty). Not only does this mean no new social and affordable housing can be delivered, but also that we will not be able to even start to catch up investment for the next decade in basic component replacement for the reductions we now need to make. Whilst we may get through with a 7% increase next year, the HRA now has no resilience for any future unplanned events.

3. We welcome government funding support through areas such as the Social Housing Decarbonisation Fund (SHDF), but the match funding requirement means that we may not be able to afford to bid for this grant for wave two, which in turn does not benefit residents

through reduced bills. Our wave one bid is expected to reduce household bills by over £400 per household – an 11% increase in rents would cost c. £487. The timing of the next bid round is also challenging (closing date 18 November 2022) when we have so much uncertainty over our financial position (and the outcome of this consultation) and therefore significant investments in this climate will need to be carefully considered.

4. We have indefinitely paused our development schemes that are not yet on site or contractually committed (150 homes, c.£35m investment). Whilst we welcome use of Homes England Grant (HEG) and use of retained 141 Right to Buy (RTB) receipts, the cost of development (broadly increased by 25%), the increase in borrowing costs, uncertainty over the rent cap consultation outcome and general financial volatility and uncertainty means we cannot make any decisions on long term, significant investments. Both funding streams require use of our own funding so an increase in these levels or percentage of costs we can fund (i.e., 40% RTB), could help but won't completely reverse the position. Abandoning schemes will cost c.£1m in abortive costs and is significant waste of our tenants' money but with these proposals is now unavoidable.

5. We are also reviewing our sites (land and some long-term void stock) with a view to sell these to be able to generate income to ensure our committed schemes are not destabilised by higher inflation and borrowing costs. However, we are clearly unlikely to get best value in the current climate and this will also impact our ability to develop our own schemes in the future, resulting in a further detrimental impact on the HRA (stock will just move into gradual decline with the impact of RTB and financial decisions on major voids due to the economic assessment of cost of repair).

6. Between 2019 and 2024 we had planned on investing £165m on our backlog maintenance programme and targeted increasing our stock decency levels but we are now reviewing our levels of decency and component replacement cycles (including void and new let standards) as this will be required to ensure that we are able to afford and remain compliant with health and safety requirements. These works will still need to be undertaken at later date, so this is also likely to cause further backlog programmes (and at higher costs) in the future.

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)?

The starting point of this question does not consider that in 2022/23 we were restricted to increasing rents by 4.1%. In 2022/23 our actual costs have risen considerably more than this as a result of significant inflation. We therefore are starting from a significantly worse position and estimate additional resources for investment have reduced by £172m (assuming a 5% cap on rent increases) and that is only the position at 25/26 - the long-term view is much bleaker. An increase of 3% (or lower cap) would further worsen this already desperate situation, and even a cap of a higher amount (e.g., 7%) means we will be marginally better but will still need to make significant savings. We strongly don't agree with any level of ceiling in either year.

Applying a one-off cap will have significant impacts on the quality and availability of social housing across the sector and investment into new stock. Extending this for a further year will further compound this. In 2016, the four-year annual 1% rent reduction introduced by government reduced our investment resources by c£300m across the 30-year life of our business plan. We of course understand and recognise the challenges our tenants face and given the majority of tenants across social housing are in receipt of benefits and therefore the impact on the welfare bill, but ongoing uncertainty will destroy investment plans at the longer-term detriment of tenants.

Rent setting remains a significant uncertainty given the ending of the current Rent Standard period at the end of 24/25 and if a cap is proposed for future years, we would rather understand this now, than have annual reviews but we challenge the ability to do this now given the exceptional and volatile economic situation. If the government's recent mini budget proposals are designed to focus on growth, settling and reducing inflation, it seems premature to be proposing a further cap in 24/25.

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?

Yes, we do not believe the rent ceiling should be applied to empty properties whether they are classed as void, through relets or for new build properties as this is the only way we are able to incrementally increase our rent income (which as mentioned elsewhere in the consultation response, are already at comparably low levels) and this is already allowed for in our business plan assumptions. If the cap were to apply, this would further significantly impact the original investment appraisal and viability of individual schemes (already impacted by high-cost inflation and borrowing costs).

However, income from relets (stock turnover) is a small part of our income (c600 units are relet each year against overall stock of 12,000). The number of first lets will reduce as our ability to invest in new developments will be decimated by inflation, borrowing and the proposed rent ceiling meaning that we will be stopping all plans for investment in new stock, other than those schemes already committed. Although we agree that void relets should not be subject to a ceiling, it is worth noting the long-term differences this could cause in rents in similar areas / neighbourhoods and the difficulties managing this messaging with tenants and how this could distort regulatory returns such as the LADR.

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?

We cannot identify any exceptions that we would include in any proposed rent cap, although the consultation has not been specific about service charge recovery and therefore, we have concerns about any proposed ceiling, also being introduced for service charges. The principle of service charges is ensuring those tenants and leaseholders who benefit from additional services or access communal areas should be the ones who pay for these costs – this ensures fairness and transparency of our services.

As outlined in other parts of our consultation response, these services (mainly utilities but also the cost of repairs, staff costs and inflationary increases already built into contracts) have seen exceptional increases, far above even what an increase at CPI plus 1% would be. Failing to fully recover these costs from specific cohorts will further impact the availability of resources for investment and tenant support services, disproportionally impacting our tenants (given failure to recover these results in a top slice against the whole HRA).

Tenants not subject to service charges have seen their own energy costs increase which they are directly responsible for, so it is completely unfair that they should be impacted by any proposed reduced recovery of communal or specific service charges. We of course recognise the impact of such large increases in recovery of recharges to some of our tenants and leaseholders and again why we would target support where this is needed, and we are considering smoothing the impact of high inflation over a number of years. It is important that government fully considers the inflationary pressures the HRA is exposed to far outweigh CPI/RPI.

In the case of Milton Keynes City Council:

- Gas Prices will rise by over 220% from 1 October 2022 and Electricity by more than 60%. We have been advised that we are not covered by the government support fund as our unit rates are still just below the thresholds set. This will add significantly to service charges and costs in the HRA.

- Repairs and maintenance inflation increases range from 15% - 50% on components.

- Pay Inflation in the HRA for 22/23 will be around 10% (including on-costs).

- Pension costs are expected to rise from April 2023 by around 10%.

Not all these pressures are uniform across the sector which is why we feel the approach set out in the consultation is both wrong and deeply divisive impacting LA's and therefore tenants very differently. We would like to see Government's Equalities Impact Assessment made public should this proposal be taken forward in its current form as there will be serious harm for many vulnerable tenants because of a blanket percentage cap.

We would therefore urge government, if it presses ahead with this to consider the following revisions and additional measures to support social housing providers, given we are now right on the edge of the financial cliff and will likely become unviable within the medium term as a result of these proposals:

1. The rent cap proposed is modified to the approach for Council Tax increases where a value or percentage is used. This would enable providers with very low rents to not be disproportionately impacted by this proposal. The proposal to use a percentage is regressive and penalises providers who already have low rents more and will push these to

an unviable position. In addition:

2. If there is a cap, the loss in percentage terms should be recoverable in future years, by increasing the cap until the rent foregone has been fully recovered by applying an additional 1% per annum (CPI+2%). Without this in our case critical investment in new homes, carbon 2030 and basic components will not be possible.

3. Given the very serious impact an additional cap will have on curtailing investment in both new homes for the medium term and under investment in basic lifecycle replacement, government should consider other measures to mitigate some of these impacts including:

   a. Allowing local authorities to retain the full value of RTB receipts to be used on investing in existing stock on capital investment which can reduce energy costs for tenants;

   b. Providing cheaper borrowing for local authorities where this is used to deliver new social rented homes or improve energy efficiency measures;

   c. Increasing grant levels on new homes to reduce the level of funding needed by LAs to provide new affordable homes;

   d. d. Increase grant funding levels, with reduced levels of match funding (better than 50%) for energy efficiency measures.

Report Version Controls		
Authors	**Version**	**Date**
Sebastian Kulig & Rahima Ahmed	1.0	11 January 2023
Housing Business Improvement Team		
Consultancy		**Review Date**
Andrew Hodgson		January 2024