



# **BCHA's Response to the National Housing Federation on the Rent Freedom Consultation**

**January 2017**

## **1.0 About BCHA**

- 1.1 BCHA is a specialist housing provider, helping homeless and vulnerable people access the right housing, health, learning and work opportunities. Founded in 1968, BCHA supports over 10,000 people every year to take control of their lives and equips them to find a way forward.
- 1.2 BCHA has a diverse range of approximately 2,000 homes across the South and South West. Over 740 of these are supported homes for people who find themselves homeless after facing relationship breakdowns, addictions, unemployment, domestic violence and deteriorating mental and physical health.

## **2.0 Why Rent Freedom?**

- 2.1 Housing associations are independent businesses that operate for the benefit of communities, especially for people who are vulnerable or those on low incomes. With the help of government grants and private investment, housing associations provide homes for lower rents and tenancies with more stability than the private sector. Rental income is central to housing association's ability to provide these aims.
- 2.2 However, housing associations are currently not able to set rents appropriate to the area it operates in, and to the situations of customers it accommodates. The current rent regime, where the Government set rent levels for social housing, means that short-term and regularly changing policies determine the amount of core income housing associations receive. This regime comes with significant uncertainty and risk, and limits investment opportunities.
- 2.3 This uncertainty shows itself in the recently introduced 1% rent reduction policy. Instead of being able to increase our rents as planned to meet our business plan objectives, we now have to reduce our rents resulting in a projected shortfall of £500k over the next three years. This has a significant impact on our ability to reinvest income in building and maintaining properties and providing employment and engagement initiatives, so it restricts the aims and purposes for which we were set up as a housing association.
- 2.4 BCHA agrees that boards should be responsible for setting and implementing their own rent policies.
- 2.5 BCHA also agrees that the principles of control and fairness are the drivers of rent freedom. Like any business, boards should have control over the income and future of the organisation, and be able to individualise their product and offer to the needs of their customers.
- 2.6 By having rent freedom, we not only expect to meet our customers' needs better in the future, become more independent and sustainable financially. Currently we need to plan our activities based on Government policies, but by having rent freedom we can pilot new models of rent setting that will benefit both our customers and BCHA. The increased control and certainty over our income will lead to better planning and investment decisions. It will also mean that our rents can be more tailored to local markets and customers.

### **3.0 How would it work?**

- 3.1 Although BCHA feel freedom in rent setting should start sooner than 2020 due to the current challenges of the rent reduction and LHA caps, we understand that some basics need to be put in place for the rent freedom to be effective. The introduction of changes from 2020 would tie into the end of the current rent regime and allow time to research, develop, consult on and implement a new regime.
- 3.2 Boards need time to use their skills and experience to consider and approve such a major policy change to ensure the outcome is in the best interests of the organisation and the customers they serve. Organisations also need to make sure they undertake an in-depth assessment and profiling of the areas they work in and their customers so that they can set the right levels of rent.
- 3.3 Current policies around the Benefit Cap and Local Housing Allowance cap mean that there is already a limit in place for housing-related welfare costs. Housing associations exist for the benefit of vulnerable customers, for better affordability of housing and more secure tenancies. As benefit payments will not cover more than these welfare caps, and tenants risk eviction upon non-payment, housing associations are not very likely to set their rents above these levels (unless they include tenant income in their rent setting). The system will set the limit for housing-related welfare costs.
- 3.4 BCHA has current and former residents on their board, as well as an active resident scrutiny panel. We would consult our tenants and Local Authority partners when setting a new rent regime to ensure affordability and co-operation.
- 3.5 Housing associations who are registered with the HCA are already under continuous scrutiny from the regulator. In return for rent freedom, we would offer the Government transparency on our rent setting rationale, as well as continuing with reporting to the HCA on value for money, social value and customer engagement and satisfaction.
- 3.6 In order for rent freedom to be a success, housing associations' boards need to have a diverse mix of skills and expertise. They need to be able to show the regulator that they are able to set and manage these rents appropriately. Using the current system of HCA Governance and Viability ratings will help assure Government of the ability of a board to set these rents effectively. An additional safeguard might be for the housing association sector to review and benchmark each other's rent rationale, keeping in mind the variety of sizes and aims.

### **4.0 Benefit to national and local government**

- 4.1 In the South West, owning a home or renting in the private sector is increasingly difficult for a growing group of the population due to shortage of housing, low wages and increased vulnerabilities. Building affordable homes and ensuring vulnerable people have access to housing is particularly important here.
- 4.2 BCHA works across a number of Local Authorities in the South West. We agree that rent freedom would enable better investment in local communities, benefitting both tenants in the area and Government.
- 4.3 If housing associations could set rents tailored to areas and individuals, housing would be more affordable to those who need it. There would also be an opportunity for an informal 'pay to stay' rent model when using the living rent, and any profits would be invested directly into building more homes.

- 4.4 BCHA expect rent freedom to increase healthier competition in the housing market between private and social landlords, and desire to see better affordability of private rented homes due to this competition.
- 4.5 Housing associations need to work closer with Local Authorities and elected members to help them understand the reason for rent freedom. We know from experience that these stakeholders may have different views depending on the area they operate in. Affordable rent is set at 80% of the market rate, but some Local Authorities are already very much against charging anything over 60%.
- 4.6 Depending on relationships with Local Authorities and partners, we expect some areas to respond negatively to the idea of rent freedom. The idea that some rents might increase will probably gain more attention than the net benefit for the wider customer group and communities.
- 4.7 Housing associations need to prepare carefully for the implementation and communicate the benefits and costs clearly to stakeholders and communities. However, not all smaller housing associations have the capacity to do this effectively so some support might be required.

## **5.0 Future Rent Models**

- 5.1 BCHA would be looking to explore the Living Rent Model (proposed by JRF, Savills and the NHF), however we are currently undertaking a customer profiling exercise which we will use to explore rent models further.

## **6.0 Summary**

- 6.1 BCHA agrees that boards should be responsible for setting rents, they should have control over the organisation's income and be able to support individual tenant's needs. The increased control and certainty will lead to better planning and investment decisions, and more sustainable businesses. It will also mean that rents can be more tailored to local markets and customers.
- 6.2 Housing associations need to undertake customer profiling exercises and allow boards the necessary time to research, develop, consult on and implement a new regime to ensure they exercise the rent freedom responsibility effectively and carefully.
- 6.3 Housing associations registered with the HCA are already scrutinised on an ongoing basis. However, they will need to make their rent setting rationale available for stakeholders and ensure good customer involvement in the rent setting process.
- 6.4 BCHA fully support the proposal for rent freedom, but would urge the NHF to continue lobbying the Government to abolish the 1% rent reduction and review Local Housing Allowance rates for future payment of housing benefit.