Consultation – How to implement social rent convergence

Response from CWAG and the NFA - August 2025

Introduction

Councils with ALMOs Group (CWAG) represents stock owning local authorities where council housing is managed by arms-length management organisations (ALMOs). CWAG is a Special Interest Group of the Local Government Association. The National Federation of ALMOs (NFA) is the trade body which represents ALMOs across England. ALMOs are not-for-profit bodies wholly owned by their parent councils, created to manage council-owned housing and deliver housing-related services. There are currently 16 ALMOs managing around 175,000 council properties.

While rent-setting policy is a retained council function, there is ongoing close partnership working between councils and ALMOs in developing 30-year business plans. We welcome the government's commitment to introducing rent convergence to deliver a more equitable system for both tenants and landlords. Policy interventions over the past decade have resulted in a significant disconnect between the rents paid by different tenants in similar properties. Current arrangements are not only unfair but have left councils with a significant shortfall in the resources available for maintaining and improving their homes. Whilst seeking to rectify this, we are keenly aware of the need to strike a balance between affordability and the speed at which convergence with formula rents can practically be achieved.

In developing our response to this consultation, CWAG and the NFA have joined with CIH, ARCH and the LGA to commission Savills to undertake an analysis of the impact of different rent convergence scenarios on social housing budgets and social rent affordability in England at the sector level. Whilst the situation varies between individual landlords, the national position has been modelled by Savills.

The full analysis is available here. In summary, for local authorities the Savills analysis highlights the following:

Convergence at £1/week	Convergence at £2/week
Would result in rents within **c84p** short of convergence with average formula rents by 2035/36.	Would result in rents within **13p/week** of convergence with average formula rents by 2035/36.
Would deliver **£262m** in-year additional rent income from convergence by 2035/36.	Would deliver **£361m** in-year additional rent income from convergence by 2035/36
Cumulative additional rent income over 10 years: **£1.863bn**.	Cumulative additional rent income over 10 years: **£3.107bn**.
A capacity conversion rate of around **9,994** additional homes	A capacity conversion rate of around **18,561** additional homes.

Savills concludes: £2/week will lead to cumulative surpluses within the national HRA by 2036/37, potentially enabling all existing stock pressures to be addressed with some capacity for additional development. The projected move to surplus takes effect from 2035, implying that deficits will need to be addressed by resources other than additional rent in the medium-term.

Local authorities would return to surplus earlier with additional subsidy and support to address pressures on the existing stock. The injection of additional resources to address immediate and short-term deficits would release further capacity for investment into new supply at an earlier point.

We welcome the government's announcements in the 5-step plan to deliver a decade of renewal in social and affordable housing, as well as the significant increase to social and affordable homes funding.

The general feedback from our members is that whilst they are keen to build new homes, there are significant ongoing financial pressures in the HRA which make it difficult to fully calculate the potential for delivering new supply. There are considerable uncertainties around the regulatory requirements for existing homes; in particular, the requirements for the Decent Homes Standard and Minimum Energy Efficiency Standards. In addition, local authorities are also still absorbing the reductions to HRA income over the last 10 years as well as increased management costs (mainly as a result of inflation, but also other factors including the NI increases announced in the 2024 Autumn Budget).

While the rent settlement and convergence are extremely welcome, the long-term rent settlement and convergence will not fund everything that the government wants to see the sector deliver. Although there will be differences between local authorities depending on a number of factors, the priority will need to be existing homes.

Rent convergence is one positive aspect of the equation, but we would also urge MHCLG to look at:

- Providing adequate grant funding for council stock improvements not included in the original self-financing settlement or alternatively recalibrate the debt levels to take into consideration the changes since 2012.

- More flexibility for local authorities to go above formula rent in areas where it is demonstratively prohibitively low. Cornwall is an example of where this flexibility could be applied. When formula rent was set, Cornwall had low average wages, low rental levels and fairly low supply costs, hence formula rent was in the lowest 25% of the country. Since then, supply chain costs have risen substantially in

Cornwall, meaning that the income received is not sustainable and does not reflect the costs of delivering the housing service.

- Long-term certainty on borrowing through a commitment to stable, low PWLB rates to allow more borrowing for investment.
- Sufficient funding for local authorities to meet MEES and longer-term decarbonisation of homes.
- Increasing the grant levels for individual new build properties to enable local authorities to build more within the HRA.

Question 1: At what level should Social Rent convergence be permitted?

- *£1 per week*
- *£2 per week*

The general consensus among members is that an increase of up to £2 per week strikes the right balance between affordability for tenants, affordability for the welfare budget, and investment in existing homes and new build. This also allows for local flexibility and discretion around the right balance between affordability and addressing cost-pressures in the HRA.

The Savills research demonstrates that at a national level, convergence at £2 per week brings HRAs into cumulative surplus by 2034/35 whilst with a convergence increase limited to £1per week HRAs remain in cumulative deficit at the 10-year point.

Therefore, allowing convergence up to £2 per week would significantly improve the viability of HRAs, enabling landlords to plan more effectively for the needs of the existing stock whilst improving the viability case for undertaking newbuild through the expanded Social and Affordable Homes Programme (SAHP).

Question 2: How would the benefits for the supply and quality of social and affordable housing differ depending on whether convergence was permitted at £1 or £2?

The Savills analysis suggests that a rent convergence of £2 could nearly double the capacity of local authorities to build compared with £1, from around **9,994 properties** to **18,561 properties.** This modelling is based on spending 70% of convergence income on newbuild and 30% on asset management investment in the existing stock.

The Savills analysis also suggests that additional newbuild capacity arising from £2 convergence over £1 convergence could be focused into the early period following the introduction of convergence. Enabling local authorities to build more homes within the HRA will also have a positive cumulative impact on HRA rental income, as newly developed homes will be let at Formula Rents and will have lower maintenance costs than average in the early years.

However, it is important to note that current asset management forecasts do not fully take account of the costs associated with proposals within the new Decent Homes Standard (DHS2) and MEES consultations. Depending on the outcome of these consultations, there could be a direct impact on the capacity of the local authority sector to build as resources may need to be redirected to the existing stock. Based on the current proposals, additional funding to cover the implementation of DHS2 and MEES will be required, either through grant funding or a reassessment of HRA borrowing, if local authority capacity to build new homes is to be realised.

Question 3: How would the impacts on households differ depending on whether convergence was permitted at £1 or £2?

We recognise that for tenants who are responsible for paying some or all of their rent, CPI +1% (+£2 week) may cause financial problems. Ultimately both convergence at £1 per week and £2 per week will increase rents to the level currently paid by new tenants, the difference is one of timing. Local authority landlords and their ALMOs already actively engage with tenants impacted by affordability issues, providing money advice and signposting to support and hardship funds; and this support can be targeted to those affected by convergence.

We feel that convergence at £2 is a fair balance to reduce the rental gap and enable greater investment in all local authority homes. This is particularly the case as around two thirds of tenants will have the rent increases covered through their Housing Benefit/ Universal Credit.

The Savills research includes an analysis of wage growth and income projections highlighting that there may be an issue over time for a minority of households if wage growth is consistently below CPI inflation. However, higher convergence rents in the short-term are potentially able to be matched by higher than CPI wage inflation, indicating that affordability would not be fundamentally affected by convergence. In this scenario, the CPI + 1% rental settlement is a greater affordability pressure for rent paying tenants than convergence.

Giving local authorities the option to converge over the rent settlement period will enable them to make local decisions on affordability.

Question 4: Should convergence be implemented from 1 April 2026 or from a later date, and what would be the implications of implementing it from a later date?

The convergence option should be available from April 2026 to enable landlords to start addressing deficits in Housing Revenue Accounts as soon as possible.

Question 5: How long should convergence be in place for, and what would be the implications of different durations of convergence?

Ideally, an ongoing convergence mechanism should be part of the rent settlement. This would allow landlords to respond flexibly to economic pressures and fluctuations over time; for example, facilitating a lower rental increase if inflation peaks in a particular year as landlords will be confident that the lost income can be recovered in a later year.

Alternatively, the convergence timetable could be aligned with the current 10-year CPI plus 1% settlement period. This would allow local authorities a reasonable catch-up period and an element of local flexibility to pause, or reduce, the rate of convergence in a particular year, for example, due to affordability concerns. Some local authorities will converge faster than others, but 10 years should allow most authorities to plan the smooth catch-up of existing backlogs.