Switching to social rent: delivering the homes we need

Policy briefing | Sam Tims | June 2024

Introduction

The housing emergency in England has become so deeply entrenched that it has soared up the political agenda and is now playing an important role in the general election debate. Nothing short of wholesale restructuring of our housing system is needed to deliver the high-quality, affordable, secure homes we all need. Secure and affordable tenure – be it through a social tenancy, owner occupation, or a reformed private rented sector (PRS) – should not be a pipedream for the millions craving a stable foundation on which to build their and their families' lives. But these are problems we can solve.

When ordering our priorities in tackling the housing crisis, we should never forget the 145,000 children in England – equivalent to a town the size of Ipswich – who currently go to bed each night without a home of their own.[1] So-called temporary accommodation has become a long-term reality for tens of thousands of families, with many stuck in this limbo for over a decade.[2] The lack of available social housing entrenches injustice, harms people's health, scars childhoods and quashes opportunity across the country.

Low-income families unable to access this secure tenure are also more susceptible to economic insecurity. In 2019/20, the poorest private renters spent 44% of their disposable income on housing costs, which, as shown in figure 1, increased to 59% in 2022/23. Over the same period, this housing burden for low-income social tenants remained constant at 33%. The inadequate supply of social housing ought to be treated as a national emergency, which should compel clear, sustained political attention and policy focus from whomever forms the next government.

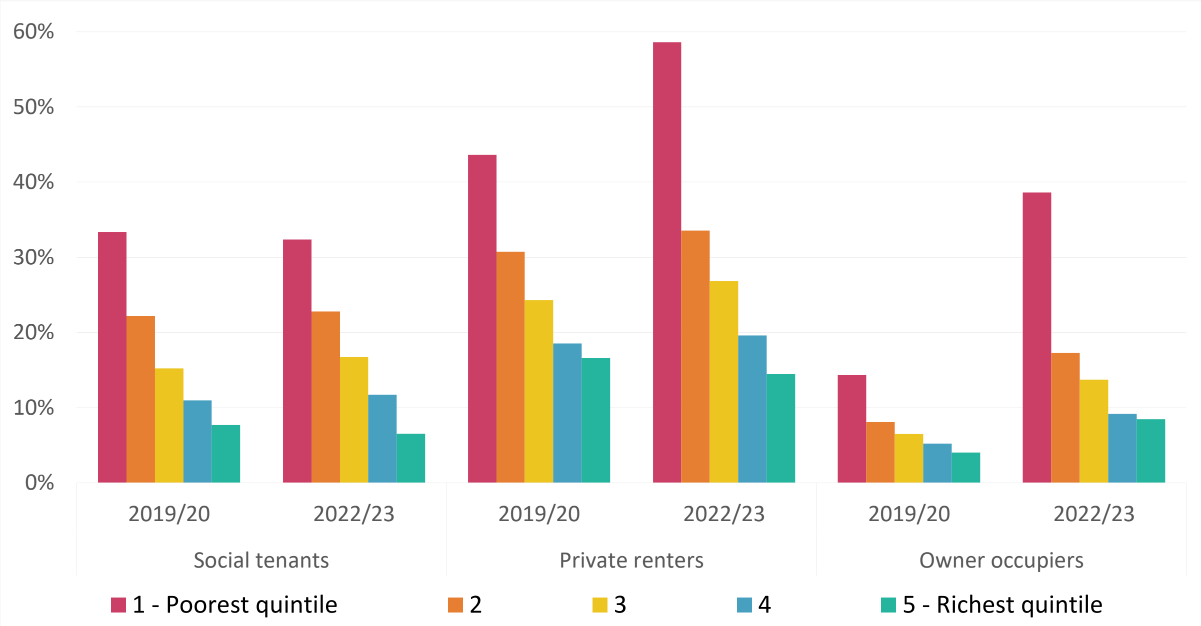
To resolve this, we must dramatically increase the supply of new homes, across all tenures, but with a clear plan to scale up to building the 90,000 social homes that are required per year.[3] Investing in this new generation of social homes, over other forms of purportedly affordable tenures, would not only provide greater access to secure and genuinely affordable rents for those to whom it would otherwise be denied, but would also generate significant economic returns. The combined socioeconomic value of building 90,000 social homes in one single year

[1] Department for Levelling Up, Housing and Communities. (n.d). *Statutory homelessness live tables*. https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness [accessed 2024, May 9]
[2] Savage, M. (2024, March 9). Revealed: homeless children spending entire lives in temporary housing in England. *The Guardian*. https://www.theguardian.com/society/2024/mar/09/homeless-kids-england-childhood-temporary-housing-families
[3] Bramley, G. (2024). *2024 UK Housing Review.* Chartered Institute of Housing. https://www.cih.org/bookshop/uk-housing-review-2024

is estimated to deliver net economic benefits of £11.9bn over 30 years, breaking even after 11 years to thereafter deliver positive returns.[4]

Figure 1: Social tenants are better protected from economic insecurity

Percentage of disposable income spent on housing costs in 2019/20 and 2022/23, by tenure



Source: NEF analysis of Department for Work and Pensions Family Resources Survey

Yet in 2022/23, only 9,500 social rent properties were built,[5] outnumbered by the 11,000 homes sold under right to buy.[6] The steps required to upscale social housing supply are complex, fraught with multifaceted challenges and strong macroeconomic headwinds that have raised borrowing and build costs while reducing the effectiveness of central government grants. Plagued by rising costs, councils also lack planning and development skills and capacity. Meanwhile, housing associations face a £36bn decarbonisation programme, chronic damp and mould problems to resolve, and a £10bn fire safety remediation bill.[7] Planning reform is imperative and land assembly continues to be problematic, alongside other significant areas of our housing system that need fundamental overhaul, not least private renting. But, with the pressures on social landlords' balance sheets coming from multiple directions, without clear government leadership on grant-making it is unrealistic to expect councils and housing associations to invest time and limited resources into housebuilding. From their perspective,

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[4] Centre for Economics and Business Research. (2024). *The economic impact of building social housing: A Cebr report for Shelter and the National Housing Federation.* https://assets.ctfassets.net/6sxvmndnpn0s/5nQCiTlJiqFDyFCWkvZSYP/9700aa188cc52c49212f0b0c0af23668/Cebr_report.pdf

[5] Department for Levelling Up, Housing and Communities. (n.d). *Live tables on affordable housing supply.* Table 1000. https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply [accessed 2024, May 10]

[6] Department for Levelling Up, Housing and Communities. (n.d). *Live tables on social housing.* Table 678. https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales [accessed 2024, May 10]

[7] Gardiner, J. (2024, February 7). 'The figures on starts are terrifying'. What's really happening to the £11bn Affordable Homes Programme. *Building.* https://www.building.co.uk/focus/the-figures-on-starts-are-terrifying-whats-really-happening-to-the-11bn-affordable-homes-programme/5127669.article

housebuilding remains discretionary compared to some of the legally mandated areas of focus listed above.[8] Social landlords are already paring back development plans in line with these pressures.[9]

Maximising developers' contributions is important and will help increase affordable housing supply. Nonetheless, when faced with these challenges, it is also necessary to re-configure and significantly upscale grant funding to enable social landlords to build the homes we need. Greater volumes of better directed grant funding lie at the heart of tackling the housing crisis.

To do so, central government must prioritise and reform grant-making, demonstrating the long-term thinking necessary both as part of the current Affordable Homes Programme (AHP), as well as planning for the next AHP from 2026. This report will examine why the next government should make the switch from shared ownership and affordable rent to social rent, alongside a series of other vital reforms to grant-making. Only then can we get councils and housing associations building again, tackle soaring homelessness and make progress on resolving the housing crisis.

Taking steps to ensure grant money is spent

The AHP provides grant funding to support the costs of developing new affordable homes. It is administered by Homes England, save for in London, where the Greater London Authority (GLA) runs the programme. As part of the current £11.5bn 2021-26 programme, Homes England originally intended to provide £7.4bn in grant funding to deliver 145,000 homes outside of London, with the GLA administering £4bn to deliver 35,000 homes in London. Rising build costs have, however, scuppered these ambitions. The costs of construction materials rose by 40% over the three years to December 2023,[10] and higher interest rates have made building new homes extremely challenging. Exacerbating this, the Treasury has imposed stringent controls on the Department for Levelling Up, Housing and Communities' (DLUHC) capital spending, making it even harder for councils and social landlords to access much-needed housing and infrastructure grants to build new homes.[11]

As a result, even in the midst of a housing crisis underpinned in large part by a lack of supply, the AHP was underspent by £255m in 2022/23.[12] More than two-thirds of the £4.2bn Housing Infrastructure Fund (HIF) – designed to unlock development – remains unspent after six years,[13] with £540m of investment in projects intended to deliver 42,000 homes cancelled in

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[8] Oliver, J. (2024, April 8). Housing associations in England warn 'we can't build houses'. *Financial Times* https://www.ft.com/content/4d429eba-1935-46c9-9871-e0a73989d043?shareType=nongift

[9] House of Commons Levelling Up, Housing and Communities Select Committee. (2024) *The Finances and Sustainability of the Social Housing Sector.* https://committees.parliament.uk/work/7406/the-finances-and-sustainability-of-the-social-housing-sector/publications/

[10] Department for Business and Trade. (2024). *Building Materials and Components statistics & ONS, UK House Price Index: December 2023*. https://www.gov.uk/government/statistics/building-materials-and-components-statistics-december-2023

[11] Wingate, S. (2024, April 8). Gove says he is still in 'dog house' with Treasury over levelling-up spending. *Independent*. https://www.independent.co.uk/news/uk/michael-gove-french-b2491627.html

[12] Stacey, K. (2023, July 12). Gove's department hands back £1.9bn meant to tackle England's housing crisis. *The Guardian.* https://www.theguardian.com/society/2023/jul/12/gove-department-hands-back-19bn-meant-tackle-england-housing-crisis

[13] Williams, J. (2024, January 2). Two-thirds of £4.2bn UK housebuilding fund unspent despite homes crisis. *Financial Times.* https://www.ft.com/content/19774a27-8964-4a5f-a705-05c91cb70e4c

recent months.[14] Homes England and the GLA have therefore since downgraded their ambitions. Now, just 23,000-29,000 homes are expected to be completed in London. A Homes England-commissioned review published in September 2023 found that only a third of its completions target had been delivered so far, with just 4% of these being for social rent.[15] A reduced target is expected to be announced by Homes England shortly.[16]

Governments facing housing construction downturns in past decades have used investment in social housing to inject demand and stimulate the construction industry.[17] In response to current challenges, Homes England issued new AHP guidance in February 2023 that made it easier for providers to bid for funding to buy unsold homes that had been originally intended for market sale. They also designated social rent as "a priority".[18] These were necessary and practical steps in the right direction. Importantly, the reduced targets set by Homes England and the GLA create an opportunity to increase grant rates, enabling councils and housing associations to overcome rising building and borrowing costs and ensure the viability of projects. This has made it more viable to build social rent homes, because, owing to the reduced rental income on social rent homes, greater grant rates are required to build social rented properties compared to new affordable rent or shared ownership homes.

Notwithstanding these measures, starts fell by 10% in the year prior to April-September 2023.[19] While they are forecast to rise by 7% across 2024,[20] given significant recent underspends there are clearly further steps that ought to be taken to ensure vital projects are delivered. As a recent Public Bodies Review into the performance of Homes England has recommended, "DLUHC should design more flexibility into future programmes to allow an effective response when market conditions change".[21]

For example, relaxing restrictions on acquisitions - currently capped at 10% of homes developed under Homes England AHP-funded schemes – would enable councils to

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[14] Riding, J. (2024, February 21). DLUHC axes infrastructure funding worth £540m intended to unlock 42,000 homes. *Inside Housing*. https://www.insidehousing.co.uk/news/dluhc-axes-infrastructure-funding-worth-540m-intended-to-unlock-42000-homes-85309

[15] Delahunty, S. (2023, September 26). Affordable Homes Programme review: 4% of social rent homes delivered so far. *Inside Housing.* https://www.insidehousing.co.uk/news/affordable-homes-programme-review-4-social-rent-homes-delivered-so-far-83272

[16] Delahunty, S. (2024, April 18). New delivery target for Affordable Homes Programme expected shortly as government admits "very unlikely" to hit original aim. *Inside Housing.* https://www.insidehousing.co.uk/news/news/new-delivery-target-for-affordable-homes-programme-expected-shortly-as-government-admits-very-unlikely-to-hit-original-aim-86113

[17] See the Housing Market Package of the early 1990s and the Kickstart programme following the Global Financial Crisis. Builtplace. (n.d.). *Housing Downturns.* https://builtplace.com/subscribers/digging-deeper/housing-downturns/2007-13/ [accessed 2024, May 14]

[18] Department for Levelling Up, Housing and Communities, and Homes England. (2024). *Apply for affordable housing funding*. https://www.gov.uk/guidance/apply-for-affordable-housing-funding

[19] Homes England. (2023). *Housing Statistics, 1 April 2023 – 30 September 2023.*https://assets.publishing.service.gov.uk/media/6579c682254aaa000d050c7f/Housing_Statistics_December_2023.pdf

[20] Daniel, A. (2023, November 21). Social housing starts expected to rise in 2024 after 13% drop-off this year. *Inside Housing*. https://www.insidehousing.co.uk/news/social-housing-starts-expected-to-rise-in-2024-after-13-drop-off-this-year-84011

[21] Department for Levelling Up, Housing and Communities. (2024). *Homes England Public Bodies Review 2023.* (p. 16) https://assets.publishing.service.gov.uk/media/6613feaceb8a1b8fae05e32f/Homes_England_Public_Bodies_Review_2023.pdf

circumvent construction challenges and take advantage of stagnating house prices. NEF's research has shown how the GLA's acquisition programmes – which benefit from a higher 30% cap negotiated with the government – will not only reduce homelessness in the capital but will save councils and public finances.[22] Homes England's acquisitions cap should be raised to the same 30% level, striking a better balance between new-build and purchases in the current circumstances. Such a move would take advantage of the current downturn to give councils more of the resources they need to tackle homelessness, better ensure grant money is spent and generate significant savings for taxpayers, just as the GLA's schemes are doing.

Unnecessary Whitehall restrictions – including a de facto Treasury veto - should also be lifted. Last year the Treasury announced it would require final sign off from all capital projects delivered by DLUHC, which includes the HIF.[23] The Secretary of State recently confirmed this de facto Treasury veto remains in place.[24] Such rigid approaches to viability have not kept pace with rising build costs and interest rates. As a result, numerous projects that would have unlocked thousands of homes have been cancelled, deemed no longer viable because of rising costs.[25] Government expenditure must be handled wisely, but maintaining rigidly out-of-date definitions of viability in circumstances in which the cost of building new homes has risen so sharply is counterproductive. It prevents the expenditure of public money allocated to resolving the housing crisis - a significant amount of which is instead returned to the Treasury. This is holding back vital development. The next government must demonstrate leadership by delivering the infrastructure projects that are vital to building new homes by reversing overzealous and bureaucratic sign-off processes. And as explained below, mayors must be given the tools to tackle the housing crisis in their region by developing long-term investment strategies based on local need.

The fact that existing housing and infrastructure capital grant allocations remain underspent while desperately needed supply remains so scarce encapsulates the dysfunctionality at the heart of our housing system. The next government could take these steps quickly and need not wait until the next AHP. Ensuring this money is invested in new homes and communities is essential not just to deliver the homes we need now, but also to make the case for the further, more expansive investment in future housing and infrastructure funds necessary to resolve the housing crisis over the medium to long-term.

Switching to social rent

As above, re-calibrating AHP funding towards social rent will better ensure grant money is spent, providing social landlords with the higher grant rates needed to build social homes while ensuring projects are viable. But there are many other compelling reasons why Homes England should expand on its increasing focus on social rent.

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[22] Diner, A., Tims, S. & O'Connor, A. (2024). Buying Back Better: How social housing acquisitions in London can tackle homelessness and help councils avert bankruptcy. *New Economics Foundation.* https://neweconomics.org/2024/03/buying-back-better

[23] Williams, J., Foster, P. & Parker, G. (2023, February 7). Treasury bans capital spending by Michael Gove's Whitehall department. *Financial Times*. https://www.ft.com/content/ee18f02c-7fa5-4ddb-aa41-4dd67743548b

[24] Wingate, S. (2024, April 8). Gove says he is still in 'dog house' with Treasury over levelling-up spending. *Independent.* https://www.independent.co.uk/news/uk/michael-gove-french-b2491627.html

[25] Riding, J. (2024, February 21). DLUHC axes infrastructure fund worth £540m intended to unlock 42,000 homes. *Inside Housing.* https://www.insidehousing.co.uk/news/dluhc-axes-infrastructure-funding-worth-540m-intended-to-unlock-42000-homes-85309

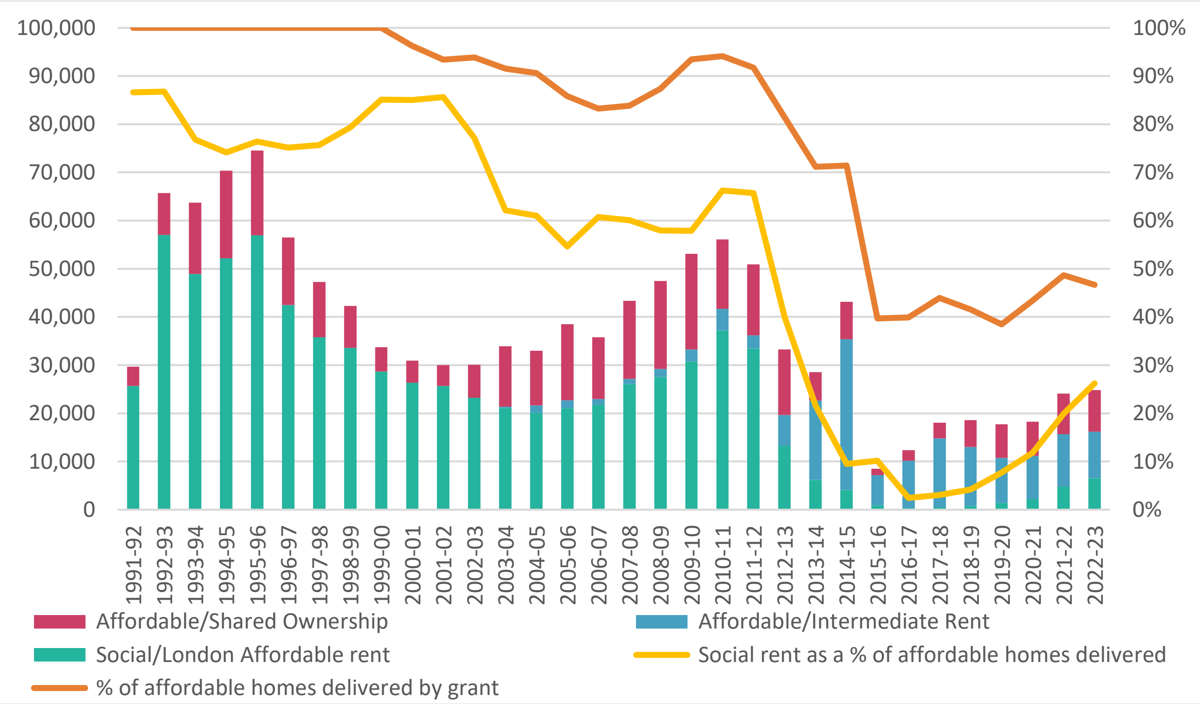
The demise of new social rent homes from 2011 and the problems with affordable rent

Between 2011 and 2018, the government prevented AHP grant funding from being used to build social rent homes. Even since, between 2018 and February 2023, the so-called "£50 rule" prevented councils from applying for social rent grant. This rule prevented grant from being allocated to social rent homes where local PRS rents were less than £50 more expensive than average social rents, which therefore included most of those in lower demand areas.[26] As a result, AHP grant has funded paltry numbers of new social homes, with higher proportions of diminishing supply instead provided by developers' contributions.

Under the new AHP guidance, however, social rent has been allocated as "a priority". The "£50 rule" has also rightly been scrapped, meaning social rent-specific grants are now available across England. However, the new guidance is equally clear that "affordable home ownership remains a priority".[27] Strict cost minimisation and deliverability rules also continue to mean that Homes England prioritises bids according to those that deliver the greatest volume of homes for the least amount of grant, which are rarely homes for social rent because of the higher grant needed to build them.

Figure 2: Numbers of new grant-funded affordable homes, especially those for social rent, have collapsed since the coalition government

Affordable housing completions funded by grant, England, by tenure, 1991/92 to 2022/23



Source: DLUHC Affordable Housing tables, table 100c. Affordable Rent and London Affordable Rent were introduced in 2011 and 2016

[26] Homes England. (2020). *Guidance: List areas of high affordability pressure*. https://www.gov.uk/government/publications/areas-of-high-affordability-pressure/list-areas-of-high-affordability-pressure

[27] Department for Levelling Up, Housing and Communities, and Homes England. (2024). *Apply for affordable housing funding*. https://www.gov.uk/guidance/apply-for-affordable-housing-funding

Homes England's stated ambition is for half of new grant-funded homes to be for rent (divided between social and affordable rent), with the other half designated for low-cost home ownership (mostly shared ownership). This is the wrong balance, particularly given current circumstances. While demand for new homes across all tenures, including those funded through the AHP, is high, there is a special need for far greater numbers of social rent homes. 110,000 households now reside in TA.[28] As well as driving immense human suffering, homelessness costs local councils and central government a combined £2.4bn in 2022/23.[29] As a policy objective, addressing this issue by providing sufficient volumes of social housing, reflected in the volume of grant dedicated to it, ought to be a priority.

While there remains demand for low-cost home ownership, particularly following the end of Help to Buy, it is not as pronounced nor urgent as the need for social rent homes.[30] This is partly because of reduced confidence in the shared ownership model, which has faced stinging criticism from the Housing Select Committee, who have described its unfair terms – with responsibility for repairs and maintenance residing solely with tenants – and expensive service charges.[31]

Crucially, the backlog of unmet demand for social rented homes is far greater than for both affordable rent and shared ownership, because, as outlined above, policy since 2011 has prioritised directing public grant to these tenures over social rent. This has meant that the volume of new shared ownership homes built in recent years is "pretty close" to the estimated need for the tenure, as calculated by the leading expert in this field, Glen Bramley.[32] His "high" affordable homes supply target broadly implies that two-thirds of new affordable homes ought to be for social rent (91,800), with the remaining third divided roughly equally between shared ownership (21,400) and affordable rent (24,900).[33] Even in this "high" scenario, figure 3 shows that more than 20,000 new shared or affordable home ownership homes were built in 2022/23, matching need for this tenure type. Similarly, 27,000 new affordable or intermediate rent homes were built in 2022/23, exceeding the number of homes required under most housebuilding scenarios. By contrast, just 14,000 new social or London affordable rent homes were built in 2022/23, only 15% of the amount needed by 2030.[34]

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[28] Department for Levelling Up, Housing and Communities. (n.d.). *Statutory homelessness live tables*. Table TA1. https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness [accessed 2024, May 9]

[29] Department for Levelling Up, Housing and Communities. (2023). *Local authority revenue expenditure and financing England 2022 to 2023 individual local authority data – outturn*. Table RO4. https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2022-to-2023-individual-local-authority-data-outturn

[30] Savills. (2019). *Shared Ownership. https://pdf.euro.savills.co.uk/uk/spotlight-on/shared-ownership.pdf*

[31] House of Commons Levelling Up, Housing and Communities Select Committee. (2024). *Shared Ownership: Fifth Report of Session 2023-24.* https://committees.parliament.uk/publications/44088/documents/218475/default/

[32] Bramley, G. (2024). *Housing Requirements in England Revisited*. Heriot-Watt University. https://pure.hw.ac.uk/ws/portalfiles/portal/113960635/Bramley_G._HOUSING_REQUIREMENTS_IN_ENGLAND_REVISITED.pdf

[33] Bramley suggests this volume of homes can be built largely through re-purposing existing grant and finance support provided by DLUHC, and through enhanced developers' contributions. For the purposes of our analysis, we assume the envelope is the same as the existing AHP 2021-26.

[34] Department for Levelling Up, Housing and Communities. (n.d.). *Live tables on Affordable Housing supply* https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply [accessed 2024, May 20]

Figure 3: Supply of shared ownership and affordable rent homes are closely aligned with projected levels of need, while social rent lags way behind

Affordable housing need by tenure under different scenarios, and 2022/23 supply

Source: UK Housing Review 2024 and DLUHC Affordable Housing Statistics.

Note: Social Rent figures include Social Rent and London Affordable Rent; 'Intermediate Rent' figures include Affordable Rent and Intermediate Rent; 'Shared Ownership' figures include Shared Ownership and Affordable Home Ownership.

Counting the cost of affordable rents to tenants and central government

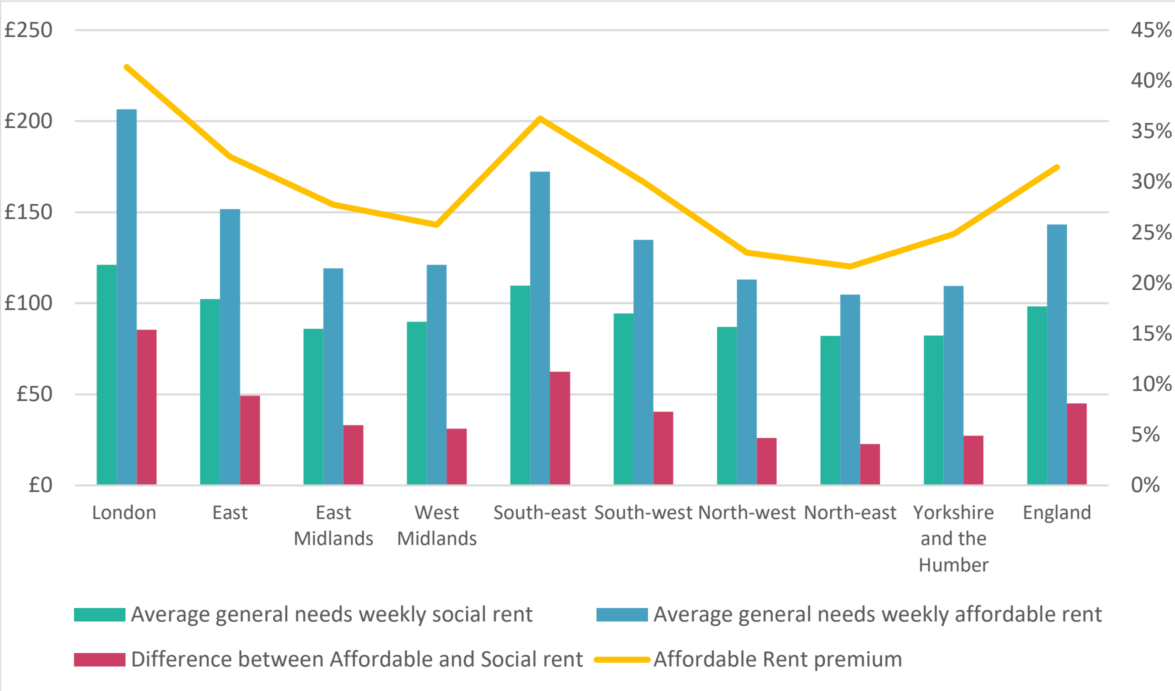
The affordable rent model too has been criticised for being a misnomer.[35] As outlined in figure 4, affordable rents are on average 31% more expensive than social rents across England, rising to 41% in London.[36] Affordable rent is capped at 80% of market rent, whereas social rents are calculated using a government formula that accounts for local income and property values.

[35] Jayanetti, C. (2023, August 20). Affordable rent costs double the equivalent social rent in parts of England. *Inside Housing.* https://www.insidehousing.co.uk/news/affordable-rent-costs-double-the-equivalent-social-rent-in-parts-of-england-81195

[36] Regulator of Social Housing. (2023). *Registered provider social housing stock and rents in England*. https://www.gov.uk/government/collections/registered-provider-social-housing-stock-and-rents-in-england

Figure 4: Average English affordable rents are 31% more expensive than average social rents, and are even less affordable in London and the south-east

Average affordable and social rents, by region, 2022/23



Source: Regulator for Social Housing rent statistics 2022/23

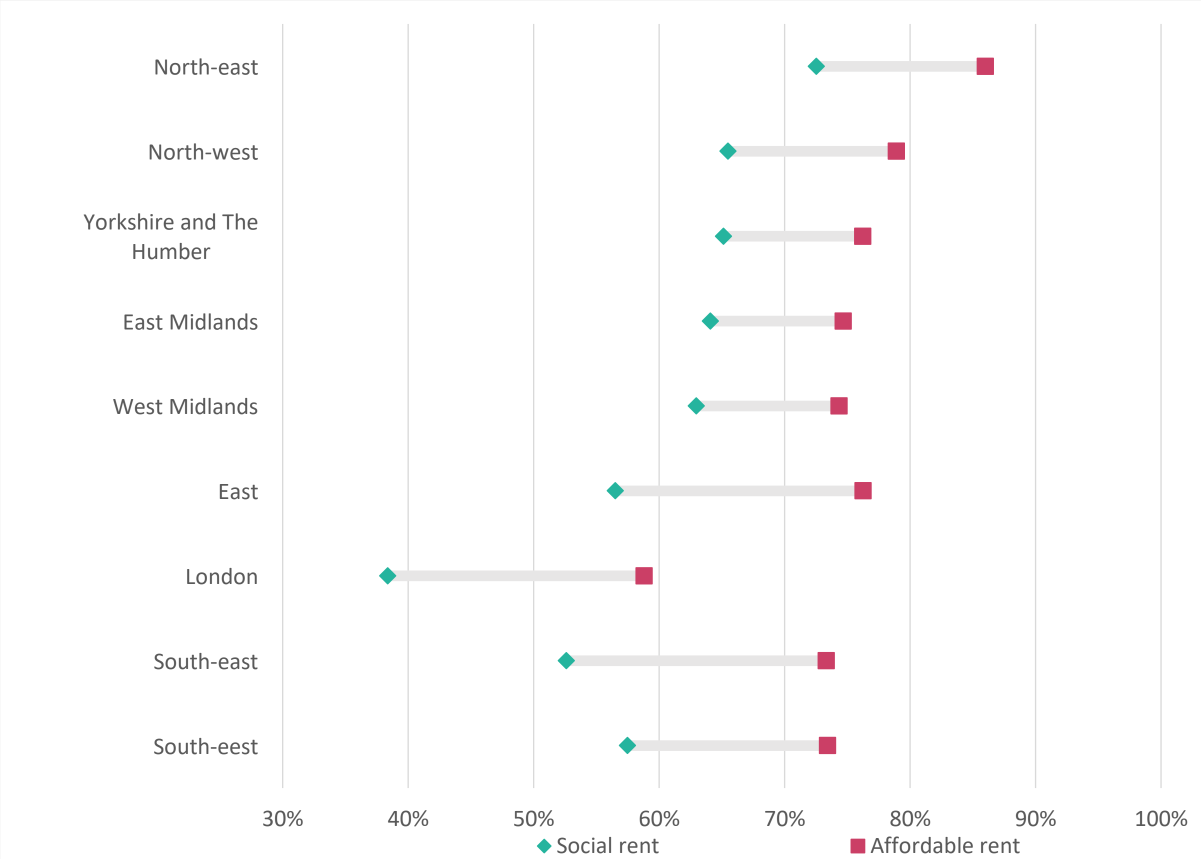
We see further evidence of the cost of affordable rents when comparing to median private rented rents. Figure 5 shows that social rents for a two-bedroom housing association property are between 11 and 21 percentage points lower than affordable rents, with the greatest difference in London and the south-east where private rents are greatest. The difference between the social and private rented sectors is lowest in the north-east, where affordable and social rents are 86% and 73% of median private rents. London, with its substantially higher private rents, stands out compared to other regions, with affordable and social rents worth 59% and 39% of median private rents.

If affordable rents were instead let at social rent rates, the average rent would reduce by almost £2,000 per year, totalling an estimated £670m. The higher cost of affordable rent falls on both tenants and central government, the latter via higher housing benefit and universal credit (HB/UC). Between 2017/18 and 2021/22, 70% of new affordable rents were let to tenants in receipt of one of these two benefits, a similar proportion to new social rent lettings (71%).[37] In 2022/23, following the pandemic and during the early days of the cost of living crisis this increased to 79% and 78% respectively.

[37] Department for Levelling Up, Housing and Communities. (2024). *Social housing lettings in England, April 2022 to March 2023.* https://www.gov.uk/government/statistics/social-housing-lettings-in-england-april-2022-to-march-2023

Figure 5: Social housing is most effective at reducing costs for low-income households in London

Average social and affordable rent for a two-bedroom housing association property as a proportion of median private rents in 2022/23, by region



Source: Regulator for Social Housing rent statistics 2022/23, ONS private rental market summary statistics in England 2022/23

Applying the lower 70% average to the 350,000 affordable rent properties with one or more bedrooms in England (including those in London), we estimate 240,000 homes require greater financial support from HB/UC compared to if they were let as social rents. This would have increased the housing benefits bill by up to £470m in 2022/23 alone. As a result of their higher housing costs, low-income families with an affordable rent tenure will be more likely to be impacted by the benefit cap compared to those living in a social rent. It is therefore likely that tenants will have to cover some of this £470m instead.

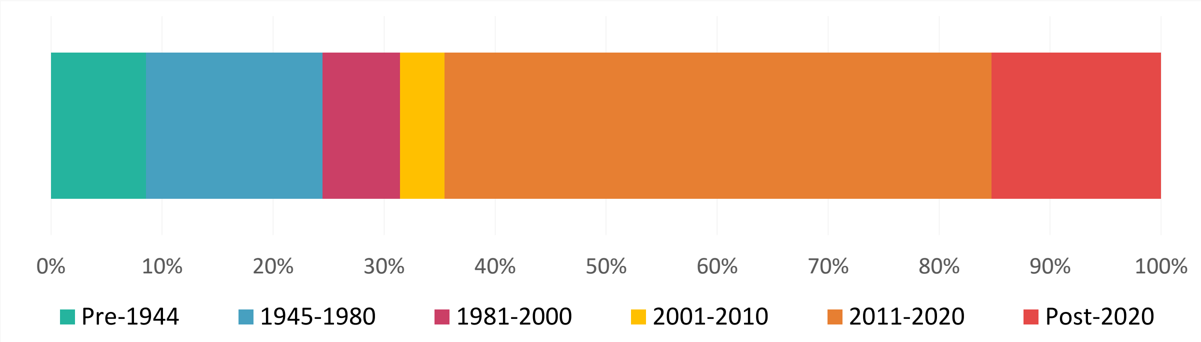
Building these new homes for social rent will have required greater up-front grant from central government. But in the long run, building these homes for social rent would have been more fiscally efficient for government. That is because, firstly, the average funding for social and affordable rents under the 2021-26 AHP is £73,000 and £49,000 respectively.[38] Based on 2022/23 housing association rents, the higher up-front cost of building a social rent home will be outstripped after 13 years by the lower average housing benefit payable on each home.

[38] Department for Levelling Up, Housing and Communities. (2023). *2021 to 2026 Affordable Homes programme Summary: end of March 2023.* https://www.gov.uk/government/publications/affordable-homes-programme-2021-to-2026-summary/2021-to-2026-affordable-homes-programme-summary-end-of-march-2023

From year 14 onwards, it produces net savings for government if the home is for social rent, as opposed to being for affordable rent, resources which could be reinvested in building more homes or retrofitting existing homes. While the grant rates for the 2021-26 AHP are constant, the nominal gap between social and affordable rents has increased. Using 2019/20 rents, it would have taken 16 years to begin making net savings for central government.

Figure 6: Over a third of affordable rent stock was built before the tenure was introduced in 2011

Completion date of housing association affordable rent stock as of 2022/23

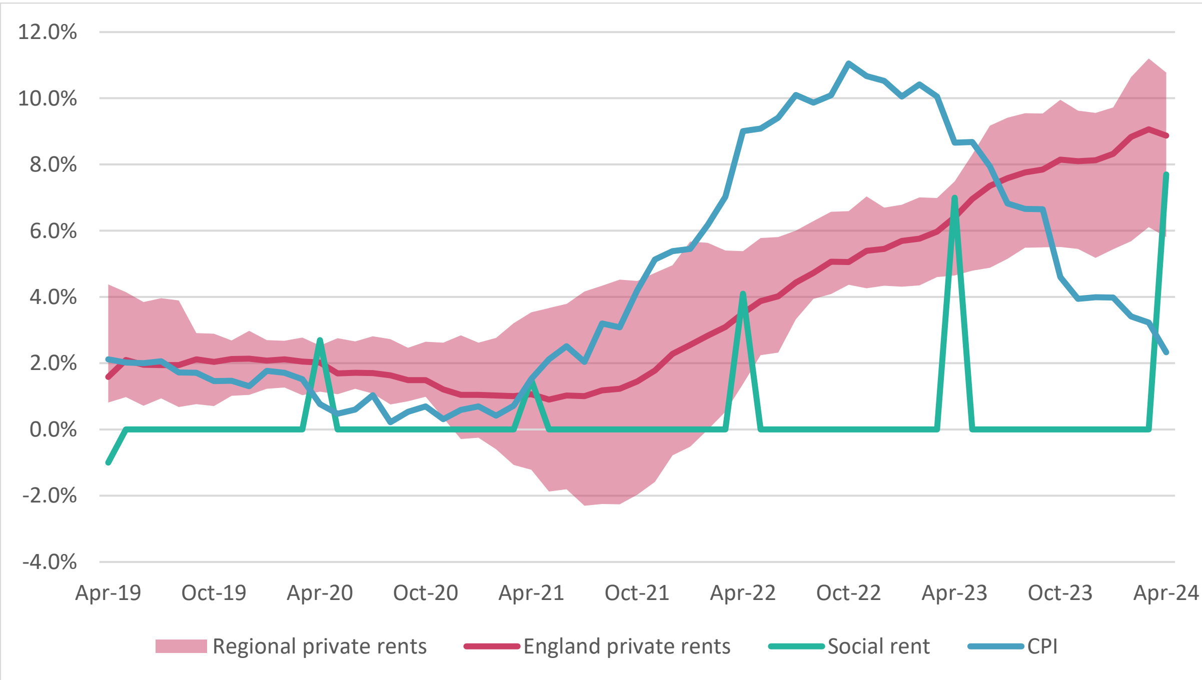


Source: Regulator for Social Housing rent statistics 2022/23

Furthermore, many housing associations have converted homes previously let for social rent to affordable rent. As shown in figure 6, 35% of homes let by housing associations as affordable rents were built before 2011, when the tenure was introduced. This also places additional costs onto government through higher housing benefit charges.

Figure 7: English private rents are rising almost four times faster than inflation

Change in inflation indices since April 2019 for English private rents, social rents, and CPI



Source: Office for National Statistics consumer price inflation table and price index of private rents

These costs are set to increase if current trends continue. With inflation approximately at the Bank of England's 2% target, we can anticipate a moderate increase to social rents in April 2025 - which typically increase by September's CPI plus 1%. But while inflation has eased, private rents continue to rise rapidly. In the year to April, figure 7 shows that English private rents increased by 8.9%, almost four times higher than CPI (2.3%). Without a major easing in private rent inflation, we can expect a large real terms increase to affordable rents – which are set at 80% of market rent.

Ensuring supply matches demand

There are further reasons to pivot to a greater focus on social rents beyond the long-term cost to government. As the housing select committee has recently concluded, "the government's current use of grant to fund mainly affordable rent and shared ownership is inefficient", because, unlike social rented homes, it is often viable to build them without grant. The committee suggests that government should assess the capacity of appropriate private investment to build these homes to free up grant funding for social rent.[39]

The next government should therefore recalibrate these priorities and use public grant in the way most conducive to resolving the housing crisis. AHP grant should be orientated around need and heavily switched to social rent, as it had been prior to 2011. Instead of social rent being a priority alongside shared ownership, it should therefore become the clear, sole priority.

The National Audit Office has been critical of the AHP's failure to direct grant more towards those areas in which affordable housing is most needed.[40] Current cost minimisation rules – which prioritise delivering the maximum number of homes for the minimum volume of grant – prevent successful bids for new social rent homes in the most high-demand areas, because the level of grant required is higher. Reforming these rules will enable more of the right type of homes to be built in the right places. Cost minimisation rules should therefore be reformed to enable bids to unambiguously prioritise social rent.

While developers' contributions should, alongside grant, continue to play a role, Homes England's long-term adjusted targets should reflect housing need, with grant allocation between the tenures shifted to give effect to this. Given the greater grant needed to fund social house building over other affordable tenures, ensuring two-thirds of grant-funded affordable homes outside London are for social rent would require 71% of the allocation, if reliant solely on AHP. The remainder would be divided broadly equally between shared ownership (15%) and affordable rent (14%).

However, as above, appropriate private investment should be leveraged to take the lead in building affordable rent and shared ownership homes. This would ensure grant can be squarely focused on social rent and would free-up resources to allocate to new social rent homes. The next government should therefore aim for at least 80% of AHP grant money to be

[39] House of Commons Levelling Up, Housing and Communities Select Committee. (2024). *The Finances and Sustainability of the Social Housing Sector*. https://committees.parliament.uk/work/7406/the-finances-and-sustainability-of-the-social-housing-sector/publications/

[40] National Audit Office. (2022). *The Affordable Homes Programme since 2015*.https://www.nao.org.uk/reports/the-affordable-homes-programme-since-2015/

allocated to social rent, with the remainder split broadly equally between shared ownership and affordable rent.

Switching to this level of prioritisation of social rent will almost certainly result in grant money funding fewer total new homes than had been originally planned under Homes England and the GLA's 2021 targets, because of the higher grant rate per home required. However, as outlined above, Homes England and GLA targets have already been dramatically downscaled in line with macroeconomic conditions. Rather than focusing on undeliverable targets, it is more important in the short-to-medium-term to move to social rent because it will likely result in more homes being built than are currently. That is because raising grant rates will allow councils and housing associations to better absorb these financial pressures and current macroeconomic challenges. Moreover, as demonstrated, doing so will not only deliver the right types of homes to address the desperate levels of need we face, but is also in the long-term interests of public finances.

Other vital steps to reform the AHP

As well as switching to social rent, there are numerous other reforms to AHP grant-making that will deliver a more effective programme and, in turn, more of the homes we need.

To further increase the viability of building homes for social rent, social landlords should be able to combine AHP grant with other grants and sources of capital, such as right to buy receipts. It is currently barred ostensibly on the basis that preventing this stretches grant funding further to build more homes. But as NEF has outlined previously, it is exactly these kinds of restrictions on the use of right to buy receipts that prevent councils from being able to deliver homes in the first place.[41] Without being able to combine different grant pots, building social homes often remains unviable, particularly while build and borrowing costs are so high. Instead, as discussed throughout this paper, government grant should be directed towards where it will have the greatest impact in resolving the housing crisis. This means prioritising social rent. To increase the viability of building homes for social rent, therefore, AHP grant should be allowed to be combined with other sources of grant and right to buy receipts.

To better allow partnerships to deepen and for councils and housing associations to be able to plan for the long-term, the next government should clarify the existence of and the timescales for the next AHP beyond 2026 at the earliest opportunity. Without this confirmation, there is a risk housebuilding could stall further.[42] As part of this, the next AHP should be longer than its predecessors and span the following decade, providing the long-term commitment that will facilitate social landlords to develop large or strategic projects.

To enable social landlords to formulate development plans, they need to know not only that there is a long-term pipeline of grant funding, but also what their projected revenue stream is likely to be. A longer-term AHP must therefore be mirrored by a decade-long rent settlement,

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[41] Diner, A. & Wright, H. (2024). Reforming Right to Buy: Options for preserving and delivering new council homes for the twenty-first century. *New Economics Foundation* https://neweconomics.org/2024/05/reforming-right-to-buy

[42] Riding, J. (2024, April 22). Update on next Affordable Homes Programme needed or risk slowdown in housebuilding, consortium warns. *Inside Housing.* https://www.insidehousing.co.uk/news/news/update-on-next-affordable-homes-programme-needed-or-risk-slowdown-in-housebuilding-consortium-warns-86139

as has been argued by housing associations, rather than the current piecemeal agreements.[43] While the government has recently extended the current CPI+1% rent settlement for 2025/26, rent settlement have been subject to significant volatility since ministers reneged on their previous settlement in 2015.[44] A long-term rent settlement that was index-linked to inflation would enhance the attractiveness of the social housing sector to investors and increase social landlords' ability to borrow.[45] Providing long-term clarity about both grant and revenue is therefore vital to the social landlords on whom we rely to build these homes.

To deliver more effective grant-making, the next government should also simplify and aggregate the range of funds for housing delivery, infrastructure and levelling up. The plethora of different criteria and processes are an impediment to delivery, driving up management costs - which in some cases can account for up to 10-20% of total project costs - while reducing flexibility and clarity.[46] Combining grant pots will instead ensure greater flexibility and lower costs, which will help deliver vital projects.

Importantly, AHP budgets should be devolved to more combined authorities (CAs). It is encouraging that both the West Midlands CA and the Greater Manchester CA have been confirmed as 'tier 4' CAs, entitling them to set strategic direction and local leadership of their own affordable housing budget from 2026.[47] It will create a single budget for each CA, rather than the previous system whereby mayors had to apply for individual pots of money spanning different government departments. The GLA has taken advantage of its powers by forming closer relationships with local partners and delivering higher council house building.[48] So it is encouraging to see the regional mayors of both Manchester and the West Midlands indicating that they would look to use their powers to build more social homes in their regions.[49]

A deeper devolution deal has been made with the new North East CA, with similar deals currently on offer to Liverpool City Region, South Yorkshire Mayoral Combined Authority

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[43] Barber, O. (2024, February 27). G15 urges government to commit to a 10-year rent settlement in the spring budget. *Housing Today*. https://www.housingtoday.co.uk/news/g15-urges-government-to-commit-to-a-10-year-rent-settlement-in-the-spring-budget/5128019.article

[44] Wilson, W. (2022). Rent setting: social housing (England). *House of Commons Library.* https://commonslibrary.parliament.uk/research-briefings/sn01090/

[45] House of Commons Levelling Up, Housing and Communities Select Committee. (2024). *The Finances and Sustainability of the Social Housing Sector*. https://committees.parliament.uk/work/7406/the-finances-and-sustainability-of-the-social-housing-sector/publications/

[46] Department for Levelling Up, Housing and Communities. (2024). *Homes England Public Bodies Review 2023*. https://assets.publishing.service.gov.uk/media/6613feaceb8a1b8fae05e32f/Homes_England_Public_Bodies_Review_2023.pdf

[47] Jessel, E. (2023, March 15). Mayors to get control over affordable housing under 'trailblazer' devolution deals. *Inside Housing.* https://www.insidehousing.co.uk/news/mayors-to-get-control-over-affordable-housing-under-trailblazer-devolution-deals-80714

[48] Greater London Authority. (2024). *New figures show London delivering twice as many council homes as the rest of the country combined*. https://www.london.gov.uk/new-figures-show-london-delivering-twice-many-council-homes-rest-country-combined

[49] Riding, J. (2024, May 8). Housing associations welcome new West Midlands mayor's social rent plans. *Inside Housing.* https://www.insidehousing.co.uk/news/housing-associations-welcome-new-west-midlands-mayors-social-rent-plans-86375; Burnham, A. (2024, May 7). I will build at least 10,000 council homes. As for right to buy – suspend it for new properties. *The Guardian.* https://www.theguardian.com/commentisfree/article/2024/may/07/council-homes-right-to-buy-new-properties

and West Yorkshire CA.[50] The next government should move on an accelerated timetable to realise these ambitions. To do so it should provide the required technical support and upskilling to enable these and other CAs to become tier 4 authorities as soon as possible, empowering them to demonstrate strategic direction and local leadership of affordable housing budgets.

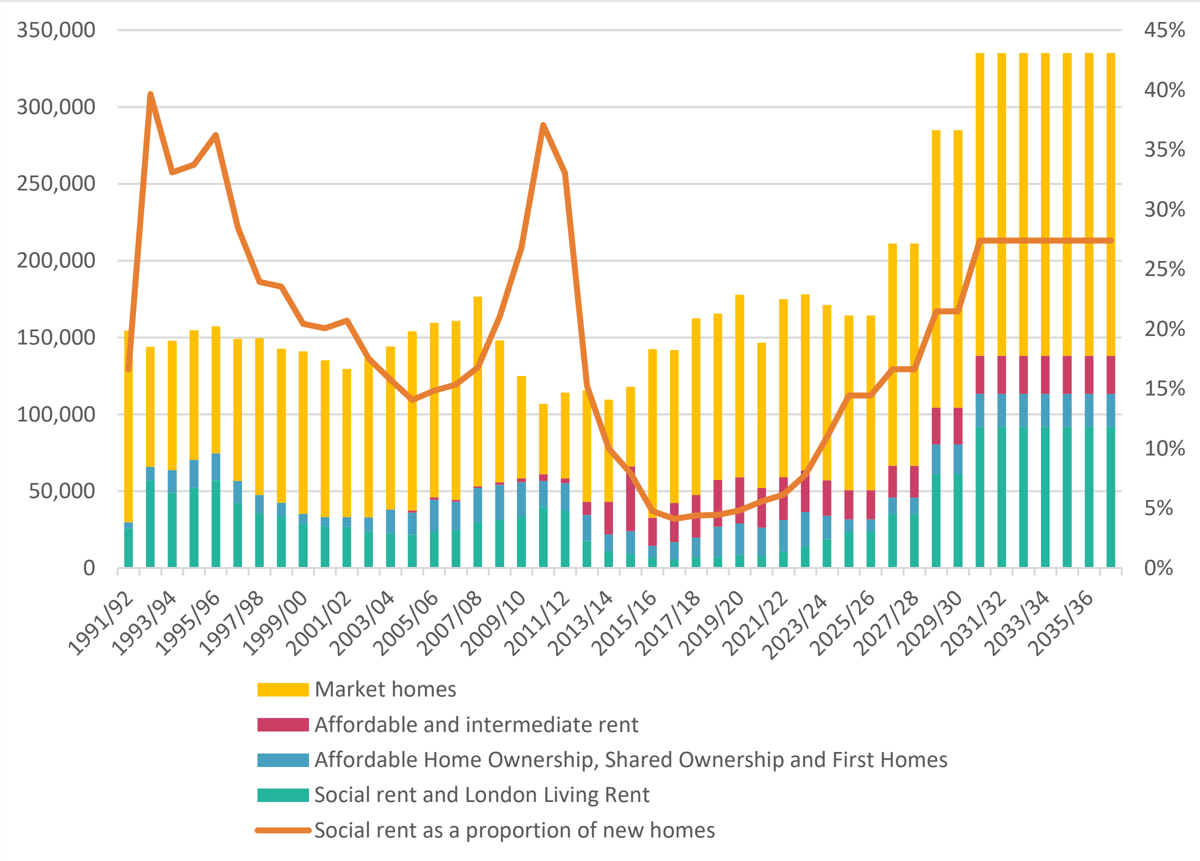
Conclusion and recommendations: the pathway to building the homes we need

Given the significant challenges to delivering a mass social housebuilding programme, it is important to outline a pathway which demonstrates the vital role the next AHP should play in ensuring we build the type of homes we need in the places we need to build them.

Bramley estimates it is "reasonable" to aim to build 90,000 homes for social rent per year from 2030.[51] Taking Bramley's timeline as well as the scenarios he outlines – "very low", "low", "medium" and "high" – as stages, enables us to envisage a pathway over a 10-year AHP from 2026 to begin delivering the volume of homes required to address need.

Figure 8: The next AHP should play a vital role in upscaling housing supply

Affordable housing completions 1991/92 to 2022/23, and assessments of housing supply need 2024/25 to 2036/27



[50] Department for Levelling Up, Housing and Communities. (2024). *A Levelling Up Budget.* https://www.gov.uk/government/news/a-levelling-up-budget

[51] Bramley, G. (2024). How much housing do we need and how should we provide it? In *2024 UK Housing Review.* Chartered Institute of Housing

Source: DLUHC, Affordable Housing Supply statistics, table 1000c and UK Housing Review 2024. Note: figures for 2023/24 are calculated at the mid-point between the previous and subsequent years

Notwithstanding a switch to social rent, it will be almost inconceivable to deliver social homes on the scale required without significant increases to AHP budgets, even if developers' contributions are maximised.[52] To help rise to the challenges we currently face and smooth the path towards delivering the homes we need, AHP funding should be reformed so that it becomes heavily skewed towards social rent.

To make the switch to social rent, the next government should:

1. Clarify the existence of and the timescales for the next AHP beyond 2026 at the earliest opportunity.
2. Ensure the next AHP either spans the following decade or is delivered on a five-year rolling financial settlement, accompanied by a decade-long rent settlement.
3. Reform AHP cost minimisation rules to allow social rent to be the prioritised tenure, boosting building and matching need. At least 80% of AHP grant money should be allocated to social rent, with the remainder split broadly equally between shared ownership and affordable rent.
4. Raise Homes England's acquisitions cap to 30%.
5. Remove the Treasury's veto over all DLUHC capital expenditure.
6. Allow social landlords to combine AHP grant with other grants and sources of capital, such as right to buy receipts.
7. Simplify and aggregate the range of funds for housing delivery, infrastructure and levelling up.
8. Devolve AHP budgets to more combined authorities, moving on an accelerated timetable and providing the required technical support and upskilling to enable this.

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[52] Birch, J. (2024, May 1). Labour's housing inheritance – can we be optimistic? *Inside Housing*. https://www.insidehousing.co.uk/home/labours-housing-inheritance--can-we-be-optimistic-86146