

Adult Social Care & Housing Overview & Scrutiny Committee 24 June 2010

Briefing note: The Setting of Social Rents

1. Background

In the Housing Green Paper, *Quality and choice: A decent home for all* (DETR, 2000) the Government identified the problem of inconsistency of rents between similar properties in similar areas owned by social landlords of all types. The incoherence was seen as unfair and confusing for tenants, as well as an impediment to implementing a policy of choice based lettings and reforming housing benefit in favour of a local housing allowance (LHA). The existing pattern of rents reflected many factors, including when and where social housing had been built, changes in the subsidies given to social landlords, and the individual rent policies pursued by different landlords, as well as by Government.

It was in this context that the Government announced a new approach to the calculation of social rents in the December 2000 Housing Statement. Ministers' stated objectives in changing social rent setting are:

- that social rents should remain affordable in the long term
- that social rents should be fairer and less confusing for tenants
- that there should be a closer link between rents and the qualities which tenants value in their properties
- that unjustifiable differences in the rents set by local authorities and by registered social landlords should be removed

The new approach established a national formula for the setting of rents in the social housing sector. The initial formula has been amended slightly over the years reflecting the results of a three year review following its implementation.

The national formula for calculating Local Authority or Housing Association rents is the same to ensure that there are no differences between rents in these sectors.

2. The Formula

The formula is based partly on the relative capital value of the property, partly on average manual earnings in the surrounding area and partly on the number of bedrooms.

The weekly rent is equal to:

70% of the national average rent
multiplied by the relative county earnings
multiplied by bedroom weight

plus

30% of the national average rent
multiplied by the relative property value

The use of local county earnings moderate the impact of property values on rent levels, which ensures that the rents calculated, reflect local incomes and therefore remain affordable.

By considering property size (bedroom weightings) a different rent is calculated for properties with different numbers of bedrooms.

3. An Example to Calculate Target Rent

4 bedroom property
Jan 1999 property value - £77,000

Information supplied by Government

National average rent - £54.62	Average Local Earnings - £281.50
Average National Earnings - £316.40	Bedroom Factor for 4 bed - 1.2
National Average Property Value - £49,750	

Step 1 Calculate the Target rent for 2000/01

Weekly Target Rent

70% x (£54.62 x £281.50/£316.40 x 1.2) =	£40.82
Plus	
30% x (£54.62 x £77,000/£49,750) =	£25.36

2000/01 Target Rent = 66.18

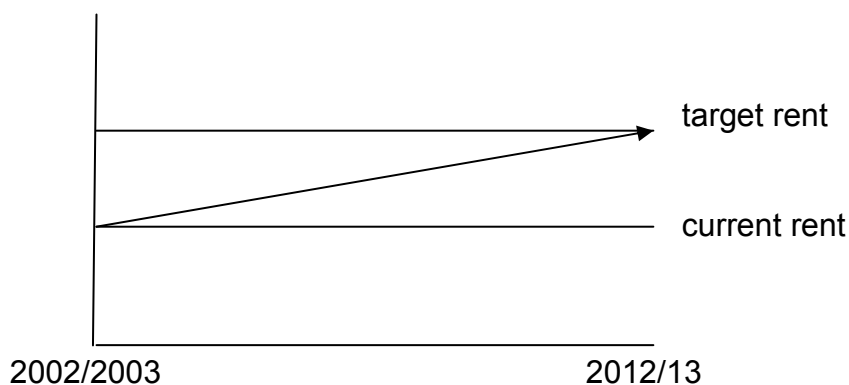
Step 2 Uprate to 2010/11 Target Rent

Multiply by 1.3671 to reflect inflation since 2000/01 (supplied by Government)

2010/11 Target rent = £90.47

4. Implementation

The new target rent will be implemented gradually over a period of years and the process by which current rents move towards the target rent is called rent restructuring or rent convergence. Some rents will be increasing and others decreasing gradually over the rent restructuring period. The Government has recently advised that the date for convergence, currently set at 2012/13 maybe changed annually. The graph below illustrates how this affects social landlords at a national level for increasing rents:



5. Restrictions (Constraints)

The Government has created safeguards to ensure that this is a fair system:

- Rent limits. Rents cannot increase by more than RPI plus ½% plus £2 in any one year.
- Rent caps (ceilings) were introduced to protect tenants in high property value areas. This ensures that properties with a high capital value (such as those in London) will not have an extremely high rent.

6. Service Charges

Housing landlords are able to make charges for additional services that may not be provided to every tenant. Normally these services relate to communal facilities such as cleaning of communal areas or communal aerials. The landlord has discretion on such charges but the service charge made must not recover more than the cost of the service provided. Such service charges are not included in tenant's target rents for rent restructuring purposes.

Local authorities have discretion on whether to implement service charges based on local circumstances. Increases in service charges are normally restricted to RPI plus ½%.

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