

Regenda Group Rent Setting

The Regenda Group is committed to providing good quality, affordable housing for people on low incomes.

The Group aims to operate a rent and service charge setting policy that -

- results in charges which are equitable and consistent across its housing stock
- meets affordability levels and is comparable with similar provision by other housing providers
- complies with current legislative and regulatory requirements.

An overriding requirement of the policy is to ensure that rent and service income is set and recovered at a level sufficient to cover operating costs and loan charges

Assured and secure tenancies account for approximately 10,700 (88%) of the Group's social housing stock – the balance comprises shared ownership, leasehold, commercial and market rented properties and stock managed on behalf of other owners. Assured rents are reviewed annually and secure rents every two years. Rent setting is governed almost wholly by the requirements of the Tenant Services Authority (TSA) **Rent Influencing and Rent Restructuring** regime. Regenda is committed to operating within this framework and reviews its policy annually to ensure compliance with the TSA's regulatory code and guidance

The Rent Influencing Regime was introduced by the Government's housing policy statement in December 2000, *Quality and choice: a decent home for all* which set out the objective that – *Rents in the social housing sector will be brought onto a common system based on relative property values and local earnings levels. HAs will be able to set rents at a level that enables them to meet their obligations to their tenants, maintain their stock and continue to function as financially viable organisations, including meeting their commitments to lenders.*

The regime came into effect on 1st April 2002 and has two distinct elements –

1. The **Rent Influencing Regime** bears down on the **level of rent increases** through the application of a guideline increase limit (**RPI + 0.5%**), and
2. The **Rent Restructuring Framework** influences the underlying **rent level** through the **Target Rent Formula**.

Service charges are exempt from the restructuring framework and are limited to recovering the cost of providing the services.

Restructuring – the process by which actual rents converge to target rents - has been taking place since April 2002 and must be broadly complete by 31 March 2012. HAs have had freedom to determine the annual adjustment required to deliver rent restructuring by the end of the 10-year period.

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This is subject to the requirement that an individual rent does not change by more than £2 a week, in addition to the guideline limit — i.e. RPI + 0.5% plus or minus £2, in any one year.

The 10 year implementation period coincides with the timescale for the completion of the Government's Decent Homes Program.

Exemptions to the regime, relevant to the Regenda Group, include Residential Care Homes and Shared Ownership and Low Cost Home Ownership Schemes.

The underlying principles of the policy are:

- rents should reflect closely the size, condition and location of properties, and local earnings
- a Target Rent be calculated for each property;
- 10-year implementation period, from 1 April 2002, to complete the restructuring of rents
- at the end of year 10, rents on individual properties to be within a band between 5% higher and 5% lower than the target rent
- landlords to have discretion over the pace and timing of restructuring programmes but to change individual rents by no more than £2 a week, in addition to the guideline limit , i.e. RPI + 0.5% plus or minus £2, in any year.
- the guideline limit for HA rent increases will be 0.5% a year in real terms
- service charges are subject to cost recovery and not formally part of the regime.

In calculating the guideline limit for increases, the **inflation figure** used is the 'all items inflation' (including mortgage payments) or RPI, for the September before the year of the rent increase, e.g. the September 2009 RPI figure (published in October 2009) will be used for the financial year 2010/11, November rent increases.

Since the start of the 10-year implementation period, Target Rents have increased by RPI + 0.5% a year. Increases or decreases in actual rents charged during that period have been limited to £2 a week in addition to the guideline limit for increases, i.e. RPI + 0.5% plus or minus £2. While individual target rents have only increased by the guideline limit; **actual rents have been moving towards convergence with target rents over the implementation period, so actual rents may have increased by more than the guideline limit of RPI + 0.5% up until the point the target rent has been reached, subject to the £2 a week limit – or, conversely may have increased less than the guideline limit if the actual rent is above the target rent.**

Convergence is expected to take place at a uniform rate throughout the implementation period and HA's were warned not to concentrate changes in the later years.

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CALCULATION OF TARGET RENTS

HAs must calculate a Target Rent for each property. The basis for the calculation is :

- 30% of a property's rent is based on relative property values
- 70% of a property's rent is based on relative local earnings
- a bedroom factor is applied so that, other things being equal, smaller properties have lower rents.

This can be expressed as a formula in which the weekly target rent for a property is calculated thus :

70% of the average rent for the HA sector multiplied by relative county earnings multiplied by bedroom weight, plus

30% of the average rent for the HA sector multiplied by relative property value

Target Rent data:

- **Rents** - The national HA sector average rent, net of service charges, as at 31 March 2000 was estimated at **£53.50**
- **Earnings** – Represent the average gross weekly earnings of full-time male and female manual workers over the 1997 to 1999 period, uprated to 1999 prices. Earnings data for the restructuring formula are as follows :

<u>County</u>	<u>£/week</u>	<u>County</u>	<u>£/week</u>	<u>County</u>	<u>£/week</u>
Avon	321.20	Greater London	354.10	Nottinghamshire	298.00
Bedfordshire	343.70	Greater Manch	307.30	Oxfordshire	323.80
Berkshire	345.40	Hampshire	328.70	Shropshire	295.40
Buckinghamshire	328.30	Hereford & Worc	289.60	Somerset	299.70
Cambridgeshire	330.10	Hertfordshire	343.70	South Yorkshire	299.10
Cheshire	322.00	Humberside	318.40	Staffordshire	296.20
Cleveland	338.40	Isle of Wight	288.50	Suffolk	304.30
Cornwall	255.50	Kent	316.40	Surrey	333.20
Cumbria	323.70	Lancashire	302.70	Tyne & Wear	307.90
Derbyshire	321.10	Leicestershire	303.10	Warwickshire	326.10
Devon	278.00	Lincolnshire	286.70	West Midlands	320.60
Dorset	293.90	Merseyside	324.90	West Sussex	332.50
Durham	289.70	Norfolk	302.50	West Yorkshire	302.70
East Sussex	281.50	North Yorkshire	299.60	Wiltshire	313.90
Essex	325.90	Northamptonshre	328.50		
Gloucestershire	308.00	Northumberland	276.10	England average	316.40

- **Bedroom weights** - The following bedroom weights are applied to the earnings term in the restructuring formula :

<u>Number of bedrooms</u>	<u>Bedroom weight</u>
Bedsit	0.80
One bedroom	0.90
Two bedroom	1.00
Three bedroom	1.10
Four bedroom	1.20
Five bedroom	1.30
Six or more bedroom	1.40

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- **Property values** - Individual property values for rent restructuring are based upon a January 1999 valuation date and an Existing Use Value, assuming continued residential use and vacant possession. The national HA sector average property value in January 1999 was estimated to be £49,750

EXAMPLE CALCULATION OF TARGET RENT

A three bed property in Liverpool with an estimated capital value of £42,000 in January 1999.

National average HA rent in 1999/2000 : £53.50

Average earnings in Merseyside : £324.90

National average earnings : £316.40

Bedroom weight : 1.10

National average HA property value in January 1999 : £49,750

Putting these figures into the formula:

70% of sector-average rent : $70\% \times £53.50 = £37.45$ (*constant in all calculations*)

Multiplied by relative county earnings : $\times £324.90 / £316.40 = £38.46$

Multiplied by bedroom weight : $\times 1.10 = \mathbf{£42.31}$ subtotal

30% of sector-average rent : $30\% \times £53.50 = £16.05$ (*constant in all calculations*)

Multiplied by relative property value: $\times £42,000/£49,750 = \mathbf{£13.55}$ subtotal

Adding together the sub-totals: $£42.31 + £13.55 = \mathbf{£55.86}$ total

The attached schedule shows -

- how the target rent is increased annually by the guideline limit (RPI + 0.5%) over the 10-year implementation period
- how the 5% flexibility (tolerance) above target rents is applied throughout the implementation period.
- how actual rents can be phased over the 10-year implementation period.

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Other factors

Supported Housing follows the same underlying restructuring principles, but is permitted an extra year (to 2012/13) to achieve convergence, and an additional 5% 'supported housing allowance' flexibility is available – making 10% in total. Supported Housing can also use alternative valuation methods (to OMV) where appropriate, to reflect the high cost of some adaptations – a replacement cost based valuation model is available.

Secure tenancies - Tenants who benefit from 'fair rents' protection retain this under rent restructuring. If a rent officer sets a fair rent below the target rent given by the formula, this lower rent will apply. If the rent officer sets a fair rent above the target rent, then the target rent rather than the higher 'fair rent' will apply. Any change to the existing rent charged should be subject to the guideline limit of RPI+0.5% plus or minus £2 a week so that tenants with fair rents enjoy the same protection as other tenants.

Improvements - If an HA undertakes improvements and wishes to reflect this in the rent, it can do so if a new valuation confirms that the capital value of the property has increased as a result. Regenda has chosen not to revalue following improvements to properties.

Relets and new lettings – the Regenda Group uses relets to move to Target Rent so long as the new rent is broadly in line with comparable local properties.