#### How Housing Associations Set Their Rents (including service charge issues)

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### Some "ancient history"...

- Pre-1990 Rent Officer set "Fair" rents
- 1990 2001(ish) HAs could set own rent
- In 2001 Government decided that rent levels for Council and Housing Association Homes should in future be set at very similar levels
- In 2005 Government decided that rent levels should be "identical"
- Government guidelines set out how to work out rent levels – these are called "Target Rents"
- HAs have till 2011 to move their current rents to target rent levels (2015(???) for Councils

• "Service Charges" set on top of rents business for neighbourhoods







#### Why Rent Convergence Necessary Example from Thanet (2005)



Same Road

Same Construction

Both "Decent"

**Different Doors** 



Council Home. Dunstan Ave **Rent £44:20pw** 

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Thanet Community HA Home. Dunstan Ave **Rent £85pw** 

# Why the changes?

- Blatant inconsistencies
- No coherence in LA & HA policies
   And our rent setting policy is???
- Housing Benefit Costs
- Welfare reform



### Rents vs. Service Charges

NB For tenants (different for leaseholders)

- Rent This covers "bricks, mortar and management" i.e:
  - Cost of managing the property
  - Cost of rent collection, repairs and maintenance, mortgage payments – for *the property*
- Service Charges These cover cost of "extra services", for example:
  - Wardens, cleaners, grounds maintenance, lighting of communal areas, maintenance of communal facilities



#### Rents vs. Service Charges What is different for leaseholders?

- For tenants the cost of providing for future major repairs (e.g. rewiring, new roofs), and capital expenditure like lift replacement, *should* be included within the rent
- Leaseholders do not pay rent (normally) Therefore the cost of providing for structural and external works, and some services (lift maintenance) are included in their service charge



#### Back to rents... The Main Proposals

The Government's intention was to:

- "achieve a pattern of affordable rents which:
- Are fairer to tenants
- Provide a closer link between rents and the qualities tenants value in their homes
- Remove differences between LA and HA rents that are not justified by factors such as size, location or state of repair"

"A Decent Home for All April 2000"

# Original guidelines

- No overall increase in 'rent take' of HAs
- Maximum increase/decrease of £2pw attributable to rent restructuring
- 30% of future rents to be determined by property values
- 70% by local earnings
   Moderated to reflect number of bedrooms
- To be achieved within 10 years (by 2011/12)
- Cap on highest rents



# Key Figures

- Average initial HA rent "deemed" to be £53.50pw\*
  - [LA: £45.60pw under original system]
- Average property values: - LA £41,350 HA £49,750\*\*
- Target rents increase by inflation plus:
   0.5% for HAs
- 5% tolerance: £2pw maximum in/decrease
   \*for April 2000 \*\*for 1999-2000



# Calculating a target rent (1)

Target weekly rent is equal to:

- 70% of the average rent of 2 Bedroom Property
- Multiplied by relative county earnings Multiplied by bedroom weight

Plus

30% of the average rent

Multiplied by relative property value

# Calculating a target rent (2)

Liverpool Estimated HA Property values (1999)

- Flats Houses
- 1 Bed Value £17,607
- 2 Bed Value £20,993 £27,087
- 3 Bed Value £23,024 £30,473
- 4+ Value £ £33,859

Average Manual earnings for Merseyside £324.90



# Calculating a target rent (3)

#### **Bedroom weightings:**

Were Now

- Bedsit 0.8
- 1 bedroom 0.9
- 2 bedroom 1.0
- 3 bedroom 1.05 [1.10]
- 4 bedroom 1.10 [1.20]
- 5 bedroom 1.10 [1.30]
- 6+ bedroom 1.10 [1.40]

Average values: Council homes £41,350 HA Homes £49,750

 Average rents (1999/2000)

 Council
 £45.60pw

 HA
 £53.50pw



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## Calculating a HA target rent (4)

#### e.g. 1 bedroom Flat in L'pool – for 1999/2000:

- 70% of average Rent; 70% x £53.50 = £37.45
- Adjust by relative earnings £324.90 / £316.40 = 102.7% £38.46
- Times bedroom weight 0.9 =£34.61
- 30% of average rent; 30% x £53.50NATIONAL =£16.05 business for neighbourhoods

# Calculating a HA target rent (4a) (annual rent increases)

Increase by RPI+1.0% (2.1%) for April 2000 =  $\underline{£41.14}$ Increase by RPI+1.0% (4.3%) for April 2001 =  $\underline{$ £42.90 Increase by RPI+0.5% (2.2%) for April 2002 = £43.85Increase by RPI+0.5% (2.2%) for April 2003 =  $\underline{$ £44.81 Increase by RPI+0.5% (3.3%) for April 2004 =  $\pm 46.29$ Increase by RPI+0.5% (3.6%) for April 2005 = £47.95Increase by RPI+0.5% (3.2%) for April 2006 =£49.48 Increase by RPI+0.5% (4.1%) for April 2007 <u>=£51.51</u> Increase by RPI+0.5% (4.4%) for April 2008 =£53.78 (feeling sorry for the accountants?

#### Exercise

- 1. For 2009/10 the relevant RPI inflation percentage was 5%.
  - Calculate the rent for 2009/10

- 1. For 20010/11 the relevant RPI inflation figure is: -1.4%
  - Calculate this years rent



#### Issues

- "Hidden" rent increases, especially for LA tenants:
- Increase in weightings for larger properties
- HAs can "work the system" to generate higher rents
   Particularly by being selective about valuations
- Government did consult, but:
  - Little tenant input/impact
  - Listened to Treasury and HA landlords, not tenants
  - Some protection on short term rent increases (LA)
- "Political Interference"
  - E.g. on this years Council rents
  - RPI or CPI???
- Should rents "always" go up above inflation?TIONAL
   What happens if inflation negative??