

Guide to Social
Rent Reforms

housing

Guide to Social Rent Reforms



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CHAPTER 1

Introduction

- 1.1 Ministers published a policy statement in December 2000, *Quality and Choice: A Decent Home for All – The Way Forward for Housing*¹. Amongst other things, this proposed that rent setting in the social housing sector should be brought on to a common system based upon relative property values and local earnings levels. This Guide sets out the details underpinning the Ministerial statement and provides background information on the implications of the proposals for tenants and landlords.
- 1.2 The policy statement reiterated Ministers' objectives for social rent setting that were originally set out in the Housing Green Paper, published in April 2000. These included:
- 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 properties; and
 - that unjustifiable differences between the rents set by local authorities and by registered social landlords should be removed.
- 1.3 The statement also explained that, in reaching their conclusions about rent setting, Ministers had taken very careful account of the key themes which emerged from the consultation responses to the Housing Green Paper. In particular, Ministers were concerned that a new system of rent setting should not generate rents that are unaffordable to social tenants, but neither should it compromise the continued financial health of the registered social landlord (RSL) sector.
- 1.4 Balancing these objectives led Ministers to conclude that social rents should, in future, be set on a basis which takes account of relative property values, local earnings levels and the size of individual properties. Property values provide a relatively simple and transparent way of reflecting the relative attractiveness of properties to tenants. Local earnings moderate the impact of property values on rent levels, ensuring that rents reflect local incomes and remain affordable. Property size helps to ensure a sensible pattern of rent differentials between properties with different numbers of bedrooms.
- 1.5 Underpinning this approach has been a concern about the implications for social tenants of the new approach to rent setting. The approach needs to be readily and easily understood, and needs to ensure that rents remain affordable for all groups of tenants. As rents are restructured, tenants must be fully protected from excessive year-on-year increases in their rents.

¹ *Quality and Choice: A Decent Home for All*, ISBN 1 851124 632, £5 available from DETR Publications Sales Centre, Unit 21, Goldthorpe Industrial Estate, Goldthorpe, Rotherham S63 9BL. Tel: 01709 891318; Fax: 01709 881673. A free summary of the statement is available from DETR Free Literature, Product Code: 00 HC 1186 – see inside frontispiece for address.

- 1.6 Ministers believe that the approach which they are proposing strikes an appropriate balance between the different policy objectives and that, once fully implemented, it will provide a system of social rents that is both more coherent and fairer to tenants. But Ministers also recognise that landlords, in consultation with their tenants, need to take account of local factors when setting rents. For this reason, the new system builds in scope for landlords to exercise discretion in setting rents for individual properties.
- 1.7 This Guide explains, in detail, the basis on which social landlords are being encouraged to set their rents. In particular, it provides:
- A full explanation of the central formula around which Ministers wish social rents to be set in the future, and some worked examples to clarify how it can be used to calculate rents.
 - A range of specific issues which arise from the application and implementation of this new approach to rent setting.
 - Brief progress reports and summaries of the results of a series of research projects which have informed Ministerial thinking on social rent setting in the period leading up to the December policy statement, and, prior to that, the Housing Green Paper.
 - An analysis of the implications of the rent restructuring proposals for tenants and landlords.

CHAPTER 2

Calculating Restructured Rents

2.1 This chapter sets out the details of the formula underpinning Ministers' approach to rent restructuring, and explains how it can be used to calculate rents.

Rent “formula”

2.2 The Ministerial statement made clear that Ministers want social rents which reflect:

- a) the size, condition and location of properties;
- b) local earnings, so as to take account of affordability;
- c) property size.

2.3 The statement also said that:

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

2.4 This can be expressed as a formula, in which the target rent for a property, after the completion of restructuring, is calculated using the following approach:

weekly rent is equal to: 70% of the average rent for the sector (LA or RSL)
 multiplied by relative county earnings
 multiplied by bedroom weight

 plus
 30% of the average rent for the sector (LA or RSL)
 multiplied by relative property value

2.5 There are worked examples later in this chapter to help clarify the calculations required. Relative county earnings refers to county-level earnings divided by national average earnings. Relative property value refers to an individual property's value divided by the national average value for the LA or RSL sector.

2.6 Annex A provides the information, apart from property-specific details, that landlords will need if they are to apply the formula.

Increases in social rents

- 2.7 The statement also said that local authority (LA) rent guidelines should rise by no more than 1% in real terms in 2002/03 and 2003/04, and that the guideline limit for RSL rents should rise by no more than 1/2% in real terms per annum from 2002/03 onwards.
- 2.8 This means that each year, the target rent for each property will go up in line with the guideline for its sector² (LA or RSL). For instance, in 2002/03 the target rent of an LA property will increase by 1% more than the general rate of inflation and the target rent of an RSL property will increase by ½% more than the general rate of inflation. *Restructuring is the process by which the actual rent for each property moves from its current level to its target level over the ten-year implementation period.*
- 2.9 Therefore, if a property has a rent which is currently 15% below its current target level, its rent will need to rise over the ten-year period by the equivalent of 15% plus the national average increase in rents for the LA or RSL sector. Similarly, if a property has a rent which is currently 15% above its current target level, its rent will need to fall over the ten-year period by the equivalent of 15%, offset by the national average increase in rents for its sector.

Examples

- 2.10 A couple of worked examples that demonstrate how the formula can be applied are given below.
- 2.11 For clarity, the examples show the calculation of target rents for properties assuming that national average rents for the LA and RSL sectors remain at April 2000 levels, and that restructuring is implemented immediately rather than over a ten-year period. In reality, as noted above, the target rent for each property will go up each year in line with the guideline for its sector.

Example 1

- 2.12 Consider a three-bedroom local authority property in Gloucestershire, for which the authority estimates the capital value to be £60,000 in January 1999.
- 2.13 From the information in Annex A:

average LA rent in April 2000:	£45.60
average earnings in Gloucestershire:	£308.00
national average earnings:	£316.40
bedroom weight:	1.05
national average LA property value in January 1999:	£41,350

² More precisely, for local authorities this is the national average increase in “rent guidelines” and for RSLs this is the increase in “guideline limit”.

2.14 Putting these figures into the formula:

70% of sector-average rent:	70% x £45.60	= £31.92
multiplied by relative county earnings:	x £308.00/£316.40	= £31.07
multiplied by bedroom weight:	x 1.05	= £32.63 subtotal
30% of sector-average rent:	30% x £45.60	= £13.68
multiplied by relative property value:	x £60,000/£41,350	= £19.85 subtotal
adding together the sub-totals:	£32.63 + £19.85	= £52.48 total

2.15 Therefore, the property has a target rent in April 2000 of around £52.50 per week.

2.16 The property's target rent derived from the formula will go up in line with the national average increase in rent guidelines in the LA sector. For instance, in 2002/03 the target rent will rise by 1% over the general rate of inflation. At the end of the ten-year implementation period, a property's actual rent should normally be no more than 5% higher or lower than its target level.

Example 2

2.17 Consider a one-bed RSL property in South Yorkshire, for which the landlord estimates the capital value to be £30,000 in January 1999.

2.18 From the information in Annex A:

average RSL rent in April 2000:	£53.50
average earnings in South Yorkshire	£299.10
national average earnings:	£316.40
bedroom weight:	0.90
national average RSL property value in January 1999:	£49,750

2.19 Putting these figures into the formula:

70% of sector-average rent:	70% x £53.50	= £37.45
multiplied by relative county earnings:	x £299.10/£316.40	= £35.40
multiplied by bedroom weight:	x 0.90	= £31.86 subtotal
30% of sector-average rent:	30% x £53.50	= £16.05
multiplied by relative property value:	x £30,000/£49,750	= £9.68 subtotal
adding together the sub-totals:	£31.86 + £9.68	= £41.54 total

2.20 Therefore, the property has a target rent in April 2000 of around £41.50 per week.

2.21 The property's target rent derived from the formula will go up in line with the increase in guideline limit for the RSL sector. For instance, in 2002/03 the target rent will rise by ½% over the general rate of inflation. At the end of the ten-year implementation period, a property's actual rent should normally be no more than 5% higher or lower than its target level.

CHAPTER 3

Implementation Issues

3.1 This chapter sets out some of the more detailed issues associated with the implementation of rent restructuring:

- definition of property value;
- valuation base;
- method of valuation;
- updating;
- convergence and restructuring;
- discretion for landlords;
- timing and monitoring;
- Large-Scale Voluntary Transfers;
- service charges;
- Housing Revenue Account;
- relets and new build;
- fair rents;
- regulation by the Housing Corporation.

Definition of property value

3.2 There are several concepts of property value devised for different purposes. In order that rent restructuring generates a consistent and equitable pattern of rents between landlords, a common concept needs to be adopted. Open market values assuming vacant possession and continued residential use should be used. This concept corresponds to what valuers call Existing Use Value (EUUV).

3.3 For resource accounting purposes, local authorities are required to make downward adjustments to these Existing Use Values on the basis of a series of regional adjustment factors to reflect the lower value of properties when used for social housing, obtaining an “EUUV-SH” measure. This reflects the fact that social housing is let at sub-market rents and that many tenants will have rights such as secure tenure. For resource accounting purposes, the value of social housing as an asset to the authority is therefore less than what its existing use value assuming continued residential use would be.

- 3.4 A downward adjustment to open market valuations to reflect factors such as sub-market rents should *not* be made for the purposes of rent restructuring. It would add an extra complication to the process, and introduce a circularity by allowing the pattern of current rents to influence the pattern of restructured rents. So, the property values in the restructuring formula should simply reflect Existing Use Values on the basis of continued use as housing, with no adjustment made to the normal market values.
- 3.5 A useful source of information about stock valuation is *A New Financial Framework for Local Authority Housing – Guidance on Stock Valuation*³. Appendix 1 to this guide sets out a definition by the Royal Institution of Chartered Surveyors of the concept of Existing Use Value. In particular, the concept assumes that the property remains in its current use, which in this instance is housing, and is not converted into, for example, retail or office accommodation.
- 3.6 The majority of RSLs use a historic cost method to value their stock for accounting purposes, although there are some RSLs which use EUV-SH. Landlords are required to update these valuations at least every five years, and more frequently in certain circumstances. Detailed guidance on this issue can be found in *Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords*, published by the National Housing Federation.

Valuation base

- 3.7 In order to be consistent with the basis on which DETR has consulted in the Housing Green Paper, January 1999 should be used as the property valuation base for the purposes of calculating restructured rents. All the exemplifications of rent restructuring by DETR and its consultants have used this base, since January 1999 was the most recent date for which information was available when DETR began its analysis of restructuring.
- 3.8 As the beacon values for resource accounting are based on April 2000 valuations, there are some arguments in favour of a move to an April 2000 base. But this marked a period of particularly high differentials in property prices between London and the rest of the country. In contrast, January 1999 is far more representative of the average conditions over the past five years. On balance, January 1999 appears to be the more suitable valuation base. However, the case for a revaluation will be considered as part of a three-year progress review.

Method of valuation

- 3.9 The underlying principles of rent restructuring would suggest that each property requires an individual valuation, since each property will have its own target rent based on the formula set out earlier in this guide. However, in practice, DETR recognises that this is neither practicable nor desirable. Relative property values play a fairly modest role in the restructuring formula, so small differences in individual valuations will not have a large impact on target rents.

³ A new financial framework for Local Authority Housing – Guidance on Stock Valuation, DETR, May 2000, ISBN 1 85112 3938, £15 available on the DETR website: www.housing.detr.gov.uk/nff/stockval/index.htm or from the DETR Publications Sales Centre, Unit 21, Goldthorpe Industrial Estate, Goldthorpe, Rotherham S63 9BL, Tel: 01709 891318; Fax: 01709 881673.

- 3.10 Local authorities are being required to value their stock as a whole, using the method set out in A New Financial Framework for Local Authority Housing – Guidance on Stock Valuation. Since local authorities need to obtain beacon values for resource accounting, they may well consider that these provide a reasonable basis from which to derive valuations for rent restructuring. However, as noted above, the property valuation base for the purposes of calculating restructured rents is January 1999, whereas beacon values for resource accounting are based on April 2000 valuations.
- 3.11 In the RSL sector, the Housing Corporation will be issuing guidance on a number of issues, including valuation, early in 2001. It is envisaged that RSLs will be given some discretion about how to obtain a reliable set of valuations. The focus is likely to be on obtaining a reasonable and coherent pattern of values which reflects the more significant differences in the relative market value of different properties within a landlord's stock.

Updating

- 3.12 Restructuring is expected to take place over a ten-year period and to be broadly complete by March 2012. As noted above, over time there may be changes in relative property values and relative earnings between different parts of the country.
- 3.13 It may be desirable for social rents to reflect such changes, but it is not possible to predict, at this stage, whether and how such changes will occur. As part of the three-year progress review, DETR will therefore consult on whether there is a case for updating earnings and capital values, and on the timing and form of any such update.

Convergence and restructuring

- 3.14 The policy statement noted that Ministers' objective is to reach a position where differences in social rents are justified by differences in objective criteria, such as the size and value of properties and local earnings levels.
- 3.15 Convergence does *not* imply that average rents in the LA sector will be equal to average rents in the RSL sector. Instead, it implies that two neighbouring properties of the same size and value would be expected to have very similar rents, regardless of whether they are owned by a local authority or RSL.
- 3.16 At a national level, there are likely to remain objective differences between local authority and RSL stock, particularly in its age. Under the restructuring approach set out in Section Two of this guide, even when convergence is achieved, the average level of LA rents is still likely to be around 5% to 10% below the average level of RSL rents, compared to a current difference of around 15%.
- 3.17 Convergence implies that, to achieve an appropriate differential between the sectors, local authority rents will have to increase slightly faster than RSL rents. Over the next few years, the figures in Annex A show that LA guidelines are increasing slightly faster than RSL guidelines. This produces a movement of around 2% towards convergence between the two sectors over the period up to 2003/04. Ministers intend that convergence should be achieved by the end of the ten-year implementation period, but the precise path of social rents over this period will be determined by Ministers in the light of subsequent spending reviews.

Discretion for landlords

- 3.18 The policy statement noted that, although a single formula is being proposed to guide landlords in setting rents, Ministers accept that landlords should have some discretion over the rents that are set for individual properties. This allows landlords to take account of local factors and concerns, in consultation with tenants. However, there is a need to achieve the central objective of creating a more coherent pattern of rents once restructuring is complete. Ministers have therefore said that they wish social landlords to set rents on individual properties that are normally within a band of up to 5% higher or lower than the target rents suggested by the national approach.

Timing and monitoring

- 3.19 The policy statement noted that landlords should aim to begin restructuring their rents in 2002/03 and to complete the process over a ten-year period. Ministers will allow landlords some discretion over the precise pace and timing of their restructuring programmes, although they do not expect the changes to be concentrated into the later years of the ten-year implementation period.
- 3.20 This phasing over several years will limit the changes which tenants face in their rents in any one year. But Ministers also expect social landlords to ensure that no tenant will be subject to a change in their rent as a result of the combined influence of restructuring and convergence of more than £2 a week in any year above the normal increase for inflation. This will significantly lessen the impact on tenants who are not receiving Housing Benefit.
- 3.21 Local authority landlords will be expected to produce an annual restructuring plan and progress report as part of their business planning round. This will cover issues such as the calculation of target rents, plans for attaining the targets over the implementation period, and progress achieved. The Housing Corporation is likely to expect all RSLs with more than 250 homes to produce similar plans, and will be consulting with RSLs on the details of such plans early in 2001.

Large-scale voluntary transfers (LSVTs)

- 3.22 The policy statement noted that past agreements governing the Large-Scale Voluntary Transfer of local authority housing to RSLs, including those for properties due to be transferred as part of this year's programme, have often provided guarantees to tenants that their rents will not increase by more than a set amount for a certain period, typically RPI+1% for five years. These are important guarantees which must be honoured. Commitments to lenders which may also depend on the RSLs choosing a particular pattern or level of rents must also be honoured. Ministers expect, however, that landlords should make progress on rent restructuring if there remains scope to do so after these commitments have been met. Transfers that take place in the 2001 programme and beyond will be expected to achieve convergence and restructuring to the same timetable as other social stock. As noted below, the Housing Corporation will be consulting on its detailed proposals for regulation of the rent restructuring framework early in 2001.

Service charges

- 3.23 In addition to their rent, many tenants also pay service charges. These reflect common costs such as repair and maintenance of communal facilities, overheads such as insurance and management costs, and extra services such as care and support provided by, or on behalf of, the landlord. Unlike rents, service charges may therefore comprise elements which vary from tenant to tenant, depending on their individual housing circumstances.
- 3.24 As the policy statement noted, Ministers are keen to encourage landlords to levy service charges, including support charges for the Supporting People programme, on consistent and transparent principles. But landlords are not expected to apply the restructuring formula set out in Section One of this guide to these charges, given their different nature from rents. Instead, a different approach is proposed.
- 3.25 Landlords are expected to ensure that service charges closely reflect what is being provided to tenants. For RSLs, the Housing Corporation will issue guidance in early 2001 which will encourage landlords to examine carefully the balance between rents and service charges within the context of the existing legislative and regulatory framework, and to make any necessary changes. This guidance will also cover support charges eligible for Transitional Housing Benefit, which will parallel similar guidance being issued by DETR to LSVTs and local authorities.
- 3.26 From 2002/03, the Corporation's rent-influencing policy will aim to ensure that increases in the overall quantum of rents and service charges for RSLs are limited to $RPI + \frac{1}{2}\%$, subject to differences in timing in implementation. In looking at individual RSLs, the Corporation will need to be able to distinguish between rents, which would be expected to change by $RPI + \frac{1}{2}\%$, plus or minus any adjustments for rent restructuring, and service charges, which would normally be expected to change simply by $RPI + \frac{1}{2}\%$. Some additional flexibility may be needed in relation to support charges and supported housing, in line with the Housing Corporation's current guidance. More generally, local authority landlords will also be expected to set service charges which are reasonable and transparent.

Housing Revenue Account (HRA)

- 3.27 DETR will discuss initially with the local authority associations how the HRA subsidy system will be adapted to take account of the rent reforms. There are a number of detailed issues here, but broadly the system needs to reflect changes in the average rent for an authority, over time, from the present level to that required under the rent reforms. The subsidy system must also take account of any increases in rents in the local authority sector in real terms, for example those that may be necessary to allow convergence with the RSL sector. At the same time, it must continue to distribute housing subsidy in accordance with need, and to reflect the effect of general inflation.

Relets and new build

- 3.28 Social landlords will have discretion over whether to use relets as a means of moving more quickly towards target rents, or whether to keep the rents on relets in line with their general progress towards target rents for similar properties. But landlords will be expected to apply the £2 per week limit to real rent increases to whatever starting rent they select for a new tenant.
- 3.29 Newly-provided housing funded through Social Housing Grant, and approved for funding from 2002/03 onwards, will normally have rents that are set immediately at the target levels given by the restructuring formula. However, rents on schemes approved for funding prior to 2002/03 should be treated in the same way as relets, with landlords having discretion over whether or not to move more quickly towards target rents than for existing properties. The valuation base used for ascribing capital values to new build should, as far as possible, be consistent with that pertaining to the existing stock.

Fair rents

- 3.30 RSL tenants who benefit from “fair rents” protection will retain this under the restructuring proposals. If a Rent Officer sets a fair rent which is below the target rent given by the formula, this lower rent will prevail. But if the Rent Officer were to set a fair rent which is above the target rent given by the formula, then it is expected that landlords will want to use the target rent rather than the higher “fair rent”.

Housing Corporation’s approach to regulation

- 3.31 The Housing Corporation’s approach to regulation of the rent restructuring proposals will build upon its existing regime for rent influencing. This will continue to seek to bear down on rent increases through the issue of a guideline limit for rent increases, and to influence rent levels through the restructuring framework. Assessment of compliance with the rent restructuring proposals will be based upon a review of data which are currently supplied to the Corporation by RSLs. In addition, the Corporation will expect RSLs with more than 250 homes to prepare a plan which demonstrates how rents will change over the ten-year implementation period. In assessing how RSLs are moving towards the target rent for their properties, the Corporation will review the rent plan as part of its lead regulation framework.
- 3.32 Annex B provides further details of the Corporation’s initial thoughts on implementation of the proposals. The Corporation will also be consulting in early 2001 on its detailed proposals for regulation of the rent restructuring framework, including guidance on how RSLs can derive property values and what is to be included in the rent plan.

CHAPTER 4

Research Studies

- 4.1 This chapter summarises a number of studies which have been commissioned independently or jointly by DETR to inform the development of policies to reform social rents.

Assessing the impact of rent policies on individual RSLs

- 4.2 DETR and the Housing Corporation commissioned the consultants KPMG and HACAS Chapman Hendy to provide an independent assessment of the impact on the finances of 40 individual RSLs of the rent restructuring options set out in the Green Paper, including the proposal that RSL average rent increases should be linked to RPI+0%. The National Housing Federation were closely involved through the study's steering group. The consultants also assessed the impact of the approach that Ministers set out in the December policy statement, of which details are given in Chapter Two of this guide.
- 4.3 The RSLs in the study were a sample of those whose rents were likely to fall as a result of the proposals in the Housing Green Paper. The consultants came to a view about the future financial viability of each of the 40 RSLs under each option, including the effects of potential corrective strategies which the RSL may be able to implement in response to rent reductions.
- 4.4 The results indicated that only a very small proportion of RSLs would need more than ten years to implement the approach that is set out in the December policy statement, whilst continuing to remain financially viable. An executive summary containing further information about the study and its results is being published alongside this document. It is also available on the DETR website, www.housing.detr.gov.uk/information/socialrent/index.htm or from the DETR Housing Support Unit⁴.

Local authority area case studies

- 4.5 DETR has commissioned a team led by the Universities of Birmingham and Bristol to carry out case studies with the aim of gaining insights into the practical implications of rent restructuring for landlords and tenants. The studies are looking at a range of LA landlords and different types of RSL, including national and local RSLs, a recent LSVT, and a Black Minority Ethnic (BME) RSL. Two studies are examining neighbouring LA landlords which currently have large differences in their rent structures.

⁴ Assessing the Impact of Housing Green Paper Rent Reform Policies on Individual Registered Social Landlords. DETR, Housing Support Unit, Zone 2/C6, Eland House, Bressenden Place, London SW1E 5DU, Email: h_r_summaries@detr.gov.uk. Fax: 020 7944 4527.

- 4.6 The impacts of restructuring on landlords' finances are being investigated through the modelling of rental income and interviews with landlord representatives. The impacts on tenants, including issues of affordability and changes in Housing Benefit status, are being examined through tenant surveys.
- 4.7 A number of other issues are also being examined. These include the use of the beacon approach, the impacts over time of convergence and restructuring on rents for similar properties in different sectors, and the effects of the £2 per week ceiling on annual rent changes in excess of inflation.
- 4.8 The research will be continuing until early in 2001, helping to inform detailed implementation issues such as those set out in Chapter Three of this guide. It is envisaged that the results will be published later in 2001.

Social tenants' attitudes to rent levels and rent differentials

- 4.9 This study for DETR by the Universities of Birmingham and Bristol was published in August 2000, with the key findings noted in Housing Research Summary Number 127⁵. It used an innovative "stated preference" approach to model tenants behaviour in response to changes in rents. Results included that most social tenants have a strong preference for staying in their current homes, that tenants place a high value on property condition and security and that tenants are more likely to consider "trading-up" to a better standard of accommodation than to consider "trading down".

Rent-setting policies in English local authorities

- 4.10 Another study for DETR by the Universities of Birmingham and Bristol was also published in August 2000, with the key findings noted in Housing Research Summary Number 128⁶. This used a postal survey to map the rent-setting policies and practices of local authorities in 1998/99. Results showed that around over 50% of authorities used a points-based system and that nearly 30% of authorities were planning to change their rent-setting method, most frequently to some form of points system. The proportion of authorities using a gross value method had fallen substantially since the previous survey in 1994/95.

⁵ Housing Research Summary Number 127,2000: Social Housing Tenants' Attitudes to rent levels and rent differentials. Available on the DETR website: www.housing.detr.gov.uk/hrs/numindex.htm or from the DETR Housing Support Unit, Zone 2/C6 Eland House, Bressenden Place, London SW1E 5DU. Email: h_r_summaries@detr.gov.uk. Fax: 020 7944 4527.

⁶ Housing Research Summary Number 128,2000: Rent Setting Policies in English Local Authorities, 1998/99, available from Housing Support Unit, see footnote 5 above.

CHAPTER 5

Implications for Landlords and Tenants

- 5.1 The reforms to social rents set out in the December policy statement are likely to require changes in rents for the vast majority of properties. Most social landlords can therefore expect some change in their rental income and most social tenants can expect some change in their gross rent. However, tenants who receive Housing Benefit will be largely insulated from these effects.
- 5.2 Attached at Annex C are a series of tables, summarising the implications of rent restructuring for landlords and tenants. Tables concerned with gross rents are of most interest to landlords; tables concerned with net rents are of most interest to tenants – since net rents take account of Housing Benefit. The tables mostly follow a similar format to those in the Supplement to Chapter 10 of the Housing Green Paper, published in May 2000⁷, and are based on modelling using data from the 1996 English House Condition Survey.
- 5.3 Although detailed, the tables are indicative only. For instance, they do not take into account the $\pm 5\%$ flexibility around target rents, nor do they reflect the fact that some RSLs, in particular, may find it necessary to depart from the formula, as indicated in the policy statement.
- 5.4 Annex D provides more information about the modelling. Note, in particular, that the effects of the restructuring approach are analysed separately for each sector (LA or RSL) and that average rents for each sector are at April 2000 levels. This is in order to provide a clear illustration of the impact of rent restructuring on the pattern of rents, without this being obscured by other influences on rents, such as the impact of inflation.
- 5.5 In reality, restructuring will take place over ten years, in conjunction with steps to approach convergence. Together with the effects of inflation, this means that outturn rents at the end of the restructuring period are likely to differ significantly from those shown here.

Table 1: The distribution of gross rents

- 5.6 Table 1 of Annex C compares the distribution of gross rents under the restructuring approach with unstructured rents.
- 5.7 Compared to unstructured rents, the restructuring approach narrows the range of rents for both LAs and RSLs. It concentrates LA rents into the range of £30 per week to £60 per week, and RSL rents into the range of £40 per week to £70 per week.

⁷ *Quality and Choice: A Decent Home for All* – The housing green paper, DETR, ISBN 1 85112 3784, £10 available from DETR Sales Centre, Unit 21, Goldthorpe Industrial Estate, Goldthorpe, Rotherham S63 9BL. Tel: 01709 891318, Fax: 01709 881673. A free summary of the Green Paper is available from DETR Free Literature, Product code: 0HC9021 – see inside frontispiece for address.

Tables 2A and 2B: Minimum, average and maximum gross rents in each region

- 5.8 Tables 2A and 2B in Annex C show minimum, average and maximum gross rents by region under the restructuring approach and with unstructured rents. To reduce distortions from small sample sizes, minimum rents are quoted at the 2½ percentile and maximum rents at the 97½ percentile⁸.

TABLE 2A (LA RENTS)

- 5.9 In most regions, average LA rents under the restructuring approach are broadly similar to unstructured rents. The largest changes are a fall of nearly £4 per week in London and a rise of around £3 per week in East of England.
- 5.10 Compared to unstructured rents, the restructuring approach narrows the range of LA rents within all regions. Minimum rents are increased and maximum rents are reduced.

TABLE 2B (RSL RENTS)

- 5.11 Compared to unstructured rents, the restructuring approach reduces average RSL rents by over £8 per week in the North East and East Midlands and by around £4 per week in the South West and Yorkshire and the Humber. In contrast, it increases average rents by nearly £7 per week in London, thereby increasing the spread of average rents between regions. In other regions, average RSL rents are broadly similar under the restructuring approach to unstructured levels.
- 5.12 Compared to the unstructured pattern of rents, the restructuring approach narrows the range of RSL rents *within* all regions. Minimum rents are increased and maximum rents are reduced.

Tables 3A and 3B: Gross rents by type of property

- 5.13 Tables 3A and 3B in Annex C show the effect of restructuring on different property types: high-rise flats, low-rise flats and houses.

TABLE 3A (LA RENTS)

- 5.14 In the LA sector, the average unstructured rents for high-rise flats are around £6 per week higher than those for houses. Average unstructured rents for low-rise flats are also slightly higher than those for houses.
- 5.15 The restructuring approach tends to reduce LA rents for flats, particularly high-rises, and increase rents for houses. It therefore leads to average rents for flats becoming around £3 per week lower than those for houses.

⁸ i.e. only 2½% of rents are below the 2½ percentile and only 2½% of rents are above the 97½ percentile.

TABLE 3B (RSL RENTS)

- 5.16 In the RSL sector, the average unstructured rents for high-rise flats are around £4 per week higher than those for houses. Average unstructured rents for low-rise flats are fairly similar to those for houses.
- 5.17 The restructuring approach tends to reduce RSL rents for flats, particularly high-rises, and increase rents for houses. It therefore leads to average rents for flats becoming around £4 per week lower than those for houses.

Table 4: Changes in gross rents

- 5.18 Table 4 in Annex C shows the distribution of changes in gross rents between the restructuring approach and unstructured rents.
- 5.19 Through creating a more coherent pattern of rents, the restructuring approach will generate changes in gross rents of more than £1 per week for the vast majority of properties. This is especially relevant for landlords, and for those tenants not receiving Housing Benefit.
- 5.20 The restructuring approach leads to increases in gross rents for around 53% of households and decreases in gross rents for around 47% of households. As the approach is designed to leave total rental income unchanged, the fall in rent for those households whose rents decrease will, on average, be slightly greater than the rise in rent for those households whose rents increase.

Table 5: Changes in net rents

- 5.21 Table 5 in Annex C shows the distribution of changes in net rents between the restructuring approach and unstructured rents. Net rent is the rent paid by the tenant after receipt of any Housing Benefit (HB), and therefore this table represents the changes that will be experienced by tenants.
- 5.22 Around 70% of households have all or some of their rent met by HB, so that under the current structure of HB they will experience no change in the net rent they actually pay. For those not receiving HB, the restructuring approach leads to around 17% of households facing an increase in their net rent and around 13% of households benefiting from a decrease in their net rent.
- 5.23 Under the restructuring approach, around 25,000 households face an overall increase in their net rent of more than £20 per week if they stay in their current properties. Like other households, the impact on them will be lessened by the £2 per week ceiling on increases in rents in any year above the normal increase for inflation. Also, together with the proposed reforms of lettings systems, these households will have the option, and the opportunity, to seek alternative accommodation in the social housing sector, should they wish.

Tables 6A and 6B: Changes in net rents by type of household

- 5.24 Compared to unstructured net rent levels, Tables 6A and 6B in Annex C show how the restructuring approach is likely to impact on different types of household.
- 5.25 The effects are very similar for LA households and RSL households. The two groups which experience the most change from restructuring are couples with head aged under 60 who have dependent children and all households with head aged under 60 who have no dependent children. Around 60% of couples with dependent children, and 40% of households with no dependent children will experience a change in the net rent they pay. A slightly greater proportion of households in these groups lose rather than gain from restructuring.
- 5.26 In contrast, only 20% of households with head aged 60 and over and 15% of lone parents aged under 60 will experience a change in the net rent they pay. To a large extent, this reflects the high proportion of these groups who, through Housing Benefit, are insulated from the effects of changes in their gross rent. Again, a slightly greater proportion of households in these groups lose rather than gain from restructuring.

Tables 7A to 7C: Regional changes in net rents

- 5.27 Tables 7A to 7C in Annex C give some insight into the regional distribution of households with increases and decreases in their net rent. In order to avoid problems of small sample sizes, a coarser banding of changes in net rents has been used than in the previous tables and the nine Government Office Regions have been combined into three regional groups:

'North':	North East, North West, Yorkshire and the Humber;
'Midlands & South West':	East Midlands, West Midlands, South West;
'South':	East of England, South East, London.

- 5.28 The proportion of social households entitled to Housing Benefit, and thus insulated from changes in their rents under current arrangements, is considerably greater in the North than in the Midlands & South West or the South. Roughly 75% of households in the North will experience no change in net rent, compared to around 65% in the other two regional groups.
- 5.29 In both the LA and RSL sectors in the North and the South, slightly more households lose from restructuring than gain from it.
- 5.30 In the Midlands & South West, the impacts of restructuring on households in the LA and RSL sectors are more distinct. In the LA sector there are more losers than gainers, whereas in the RSL sector there are more gainers than losers.
- 5.31 Overall, it should be emphasised that most households experience little or no change in the net rent which they actually pay.

Tables 8A to 8E: Affordability of rents by type of household

- 5.32 Tables 8A to 8E in Annex C look at the affordability for different types of household of rents under the restructuring approach, in comparison to unstructured rents. They are based on the following measure of affordability, in which net rent is a household's gross rent less any Housing Benefit to which it is entitled and net income is gross income less taxes:

Affordability ratio = net rent divided by net income before housing costs

- 5.33 Therefore less affordable rents are associated with a *higher* affordability ratio.
- 5.34 **Table 8A** shows that, because of Housing Benefit, less than 5% of total households in the social sector currently have affordability ratios of greater than 30%. Nevertheless, compared to unstructured rents, the restructuring approach slightly reduces the number of households with the least affordable rents. **Table 8B** shows that the restructuring approach also slightly reduces the number of households whose head is aged 60 and over with the least affordable rents.
- 5.35 **Table 8C** examines the implications of the restructuring approach for couples whose head is aged under 60 and who have dependent children; **Table 8D** examines the implications for lone parent households whose head is aged under 60. For both these groups, Housing Benefit prevents any significant number having an affordability ratio of greater than 30%. However, compared to unstructured rents, the restructuring approach reduces the number of these households with an affordability ratio of over 25%.
- 5.36 Finally, **Table 8E** looks at the implications for households with head aged under 60 who have no dependent children. For this group, the restructuring approach slightly increases the number of households with the least affordable rents.

CHAPTER 6

Conclusion

- 6.1 In conclusion, this guide has set out the central formula around which Ministers wish social rents to be set in the future. It has provided details of a range of specific issues that arise from the application and implication of this new approach to rent setting, and has summarised the findings of a series of related research projects.
- 6.2 The final section has examined the impacts of the restructuring approach on landlords and tenants. By creating a more coherent pattern of rents between and within regions, the approach leads to changes in rents for the vast majority of properties. Most social tenants can expect some change in their gross rent. However, those tenants who receive Housing Benefit will be largely insulated from these effects. For most types of household, the restructuring approach leads to a slight reduction in the number of households with the poorest affordability.

ANNEX A

Information for Restructuring Formula

- A1 This annex provides the information, apart from property-specific details, that is needed to apply the rent restructuring formula.

Rents

- A2 National average rents, net of service charges, in April 2000 are estimated by DETR to be as follows:

LA sector:	£45.60 per week
RSL sector:	£53.50 per week

- A3 For local authorities, increases in rent guidelines above the general rate of inflation are expected to be no greater than the following figures:

2001-02:	2%
2002-03:	1%
2003-04:	1%

- A4 For RSLs, increases in guideline limits above the general rate of inflation are expected to be no greater than the following figures:

2001-02:	1%
2002-03:	½%
2003-04:	½%
2004-05:	½%

Earnings

A5 Earnings data for the restructuring formula are given in the table below:

County	Earnings £/week	County	Earnings £/week	County	Earnings £/week
Avon	321.20	Greater London	354.10	Nottinghamshire	298.00
Bedfordshire	343.70	Greater Manchester	307.30	Oxfordshire	323.80
Berkshire	345.40	Hampshire	328.70	Shropshire	295.40
Buckinghamshire	328.30	Hereford & Worcs.	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	Northamptonshire	328.50		
Gloucestershire	308.00	Northumberland	276.10	England average	316.40

A6 These figures are derived by DETR from the New Earnings Survey (ONS) and represent the average gross weekly earnings of full-time male and female manual workers over the 1997 to 1999 period, uprated to 1999 prices. They are very similar to those currently used in the Housing Revenue Account (HRA) system. Pre-1996 counties are used, because of the problems of small sample sizes for some of the new counties, especially Unitary Authorities.

Bedroom weights

A7 The following bedroom weights are applied to the earnings term in the restructuring formula:

Number of bedrooms	Bedroom weight
Bedsit	0.80
One bedroom	0.90
Two bedroom	1.00
Three bedroom	1.05
Four or more bedrooms	1.10

A8 These weights are not derived from any single source, but are intended to provide a broad reflection of the way in which larger properties tend to be valued more highly by their inhabitants.

Property values

A9 Individual property values for rent restructuring are based upon January 1999 vacant possession values, assuming continued residential use. Further details are contained in Section Three of this guide.

A10 National average property values in January 1999 are estimated by DETR to be as follows:

LA sector:	£41,350
RSL sector:	£49,750

A11 These figures are based on a survey by a national firm of locally-based valuers. They represent open market values assuming vacant possession and continued residential use.

ANNEX B

The Housing Corporation's approach to regulation

B1 Introduction

- B1.1 This Guide sets out the details underpinning the way in which the Government wishes social rents to be set in the future. The Housing Corporation is now considering how the rent restructuring proposals should be implemented by Registered Social Landlords (RSLs).
- B1.2 The Corporation will provide guidance to RSLs, lenders and other stakeholders on proposals to develop its existing rent influencing regime. It will consult on these proposals.

B2 Key Principles

- B2.1 In developing its regulatory regime, there are a number of key principles which underpin the Corporation's approach. These include:
- B2.2 The Corporation's rent restructuring proposals will build upon the existing regime for rent influencing and will continue to seek to bear down on rent increases through the issue of a guideline limit for rent increases and influence rent levels through the restructuring framework.
- B2.3 RSLs will be able to set rents at a level that allows them to meet their financial commitments, maintain their stock and continue to function as financially viable organisations. They must also be able to meet their obligations to tenants.
- B2.4 Contractual obligations to lenders are overriding. In deciding whether to take any action against an RSL, the Corporation's paramount concern will be to protect the public and private investment in its stock and to retain the confidence of lenders.
- B2.5 The Corporation will agree a derogation from the rent restructuring framework where an RSL can demonstrate that it cannot reasonably achieve the target rents over the 10 year implementation period. The Corporation will review the position periodically. If circumstances change, the Corporation will review the position of the RSL taking careful consideration of existing commitments, including those to existing lenders. The derogation will, therefore, be subject to periodic review rather than be time limited.

B3 Future rent influencing regime

B3.1 The framework for the rent influencing regime will be set out in a consultation document to be issued early in 2001. This document will include:

- guidance for RSLs on acceptable methods for valuing properties and setting rents
- what should be included in the rent plan and the Corporation's process of review as part of its lead regulation regime
- what information the Corporation will collect and how it will assess it
- what constitutes failure against Performance Standards
- how the Corporation will investigate non-compliance and decide whether a derogation is appropriate
- how the Corporation will deal with stock transfer RSL's

B4 Next Steps

B4.1 The Corporation will be inviting comments from RSLs, lenders and other stakeholders on the principles and application of its proposed rent influencing regime.

B4.2 Following consideration of responses to its consultation document, the Corporation will finalise the principles of the regime and issue its final proposals, which will supersede previous guidance.

B5 Further Information

B5.1 For further information please contact Clare Miller, the Housing Corporation's Director of Regulation, on 020 7393 2082.

ANNEX C:

Tables of implications for landlords and tenants

Table 1: GROSS RENTS Count of households by gross rent

Range £ per week	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
£0 to £10	10	0%	*	0%	*	0%	*	0%
£10 to £20	20	1%	10	1%	*	0%	*	0%
£20 to £30	190	6%	30	3%	20	1%	*	0%
£30 to £40	1000	30%	150	16%	950	28%	60	7%
£40 to £50	1110	33%	220	24%	1520	46%	340	37%
£50 to £60	570	17%	230	25%	540	16%	280	31%
£60 to £70	270	8%	150	16%	260	8%	140	15%
£70 to £80	100	3%	80	9%	30	1%	50	5%
£80 to £90	40	1%	30	3%	20	1%	10	1%
£90 to £100	20	1%	10	1%	*	0%	10	1%
£100 to £125	10	0%	10	1%	*	0%	*	0%
£125 to £150	*	0%	*	0%	*	0%	*	0%
Over £150	*	0%	*	0%	*	0%	*	0%
Total	3340	100%	910	100%	3340	100%	910	100%

Notes: a) Unrestructured rents refer to rents at April 2000.
b) 1996 households and April 2000 rents.
c) *signifies less than 5,000 households, totals may not sum because of rounding.
d) 0% signifies less than 0.5%, totals may not sum because of rounding.

Table 2A: LA GROSS RENTS BY REGION Minimum, average and maximum gross rents by region, £ per week

Region	Unrestructured rents			Restructuring approach		
	Min	Ave	Max	Min	Ave	Max
North East	28.40	38.40	49.20	31.10	39.70	47.80
Yorkshire and the Humber	25.00	36.90	51.10	31.00	39.00	46.30
North West	26.70	42.10	58.90	30.00	40.20	50.50
East Midlands	23.70	39.60	55.00	32.20	41.30	52.70
West Midlands	20.80	41.20	56.80	33.00	43.40	53.60
South West	24.10	44.90	67.20	32.10	43.50	55.90
East of England	20.50	47.70	69.50	36.20	50.80	68.20
South East	29.70	51.80	78.70	36.70	51.40	68.60
London	26.70	60.30	96.40	43.30	56.70	82.50
England	25.30	45.60	78.00	32.20	45.60	66.70

Notes: a) 1996 households and April 2000 rents.
b) Min refers to the 2½ percentile rent.
c) Max refers to the 97½ percentile rent.

Table 2B: RSL GROSS RENTS BY REGION Minimum, average and maximum gross rents by region, £ per week						
Region	Unrestructured rents			Restructuring approach		
	Min	Ave	Max	Min	Ave	Max
North East	25.30	52.90	91.50	33.10	44.30	55.20
Yorkshire and the Humber	12.10	49.60	82.10	35.70	45.10	54.90
North West	27.50	44.20	94.60	36.50	45.90	54.00
East Midlands	30.80	54.40	74.50	39.00	46.30	61.00
West Midlands	19.30	49.50	74.90	39.60	47.80	58.80
South West	27.50	55.00	88.10	35.80	51.20	70.30
East of England	29.70	54.60	78.20	39.90	56.30	74.40
South East	29.70	55.70	88.10	39.40	54.90	72.80
London	35.30	59.50	115.70	48.70	66.10	100.00
England	27.50	53.50	88.10	37.50	53.50	80.50

Notes: a) 1996 households and April 2000 rents.
 b) Min refers to the 2% percentile rent.
 c) Max refers to the 97% percentile rent.

Table 3A: LA GROSS RENTS BY TYPE OF PROPERTY Percentage of households by gross rent						
Range £ per week	LA flats over 5 storeys		LA flats up to 5 storeys		LA houses	
	Unrestructured	Rest. approach	Unrestructured	Rest. approach	Unrestructured	Rest. approach
£0 to £10	0%	0%	1%	0%	0%	0%
£10 to £20	1%	0%	1%	0%	0%	0%
£20 to £30	3%	3%	7%	1%	5%	0%
£30 to £40	21%	39%	29%	44%	32%	18%
£40 to £50	23%	31%	31%	30%	36%	56%
£50 to £60	22%	21%	16%	18%	17%	14%
£60 to £70	18%	5%	9%	6%	6%	9%
£70 to £80	8%	0%	4%	1%	2%	1%
£80 to £90	2%	0%	2%	0%	1%	1%
£90 to £100	1%	0%	2%	0%	0%	0%
£100 to £125	0%	0%	0%	0%	0%	0%
£125 to £150	0%	0%	0%	0%	0%	0%
Over £150	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Average (£)	50.70	43.60	46.00	44.00	44.80	46.80

Notes: a) 1996 households and April 2000 rents.
 b) 0% signifies less than 0.5%, totals may not sum because of rounding.

Table 3B: RSL GROSS RENTS BY TYPE OF PROPERTY

Percentage of households by gross rent

Range £ per week	RSL flats over 5 storeys		RSL flats up to 5 storeys		RSL houses	
	Unrestruc- tured	Rest. approach	Unrestruc- tured	Rest. approach	Unrestruc- tured	Rest. approach
£0 to £10	0%	0%	0%	0%	0%	0%
£10 to £20	7%	0%	0%	0%	1%	0%
£20 to £30	0%	0%	2%	0%	5%	0%
£30 to £40	13%	6%	15%	12%	18%	2%
£40 to £50	7%	48%	27%	42%	21%	32%
£50 to £60	25%	20%	30%	26%	19%	37%
£60 to £70	25%	11%	16%	14%	17%	18%
£70 to £80	12%	13%	6%	5%	11%	7%
£80 to £90	8%	0%	2%	0%	4%	3%
£90 to £100	4%	0%	1%	1%	1%	1%
£100 to £125	0%	0%	1%	0%	1%	0%
£125 to £150	0%	0%	0%	0%	0%	1%
Over £150	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Average (£)	57.40	53.00	53.10	51.20	53.80	56.50

Notes: a) 1996 households and April 2000 rents.
b) 0% signifies less than 0.5%, totals may not sum because of rounding.

Table 4: CHANGES IN GROSS RENTS WITH RESTRUCTURING APPROACH

Count and percentage of households by change in gross rent from unstructured rents

Range of change £ per week	LA		RSL	
	'000	%	'000	%
Down by more than £50	*	0%	10	1%
Down by £30 to £50	40	1%	30	3%
Down by £20 to £30	80	2%	50	6%
Down by £10 to £20	350	10%	140	15%
Down by £5 to £10	390	12%	90	10%
Down by £2.50 to £5	350	11%	60	6%
Down by £1 to £2.50	210	6%	40	4%
Down by £0.01 to £1	140	4%	20	2%
No change	*	0%	*	0%
Total down/no change	1,560	47%	430	48%
Up by £0.01 to £1	150	5%	20	2%
Up by £1 to £2.50	230	7%	30	3%
Up by £2.50 to £5	350	11%	60	6%
Up by £5 to £10	620	19%	120	13%
Up by £10 to £20	320	10%	160	18%
Up by £20 to £30	70	2%	70	7%
Up by £30 to £50	30	1%	10	2%
Up by more than £50	*	0%	10	1%
Total up	1,780	53%	470	52%
Total	3,340	100%	910	100%

Notes: a) 1996 households and April 2000 rents.
b) * signifies less than 5,000 households, totals may not sum because of rounding.
c) 0% signifies less than 0.5%, totals may not sum because of rounding.

Table 5: CHANGES IN NET RENTS WITH RESTRUCTURING APPROACH
Count and percentage of households by change from unstructured rents in rent paid by tenants after housing benefit

Range of change £ per week	LA		RSL	
	'000	%	'000	%
Down by more than £50	*	0%	*	0%
Down by £30 to £50	10	0%	10	1%
Down by £20 to £30	30	1%	10	1%
Down by £10 to £20	90	3%	60	7%
Down by £5 to £10	130	4%	30	3%
Down by £2.50 to £5	100	3%	10	1%
Down by £1 to £2.50	50	2%	*	0%
Down by £0.01 to £1	40	1%	10	1%
Total better off	470	13%	130	14%
No change	2,310	69%	630	69%
Up by £0.01 to £1	60	2%	10	1%
Up by £1 to £2.50	110	3%	10	1%
Up by £2.50 to £5	120	4%	20	2%
Up by £5 to £10	160	5%	40	5%
Up by £10 to £20	100	3%	50	5%
Up by £20 to £30	10	0%	20	2%
Up by £30 to £50	*	0%	*	0%
Up by more than £50	*	0%	*	0%
Total worse off	560	17%	150	16%
Total	3,340	100%	910	100%

Notes: a) 1996 households and April 2000 rents.
b) *signifies less than 5,000 households, totals may not sum because of rounding.
c) 0% signifies less than 0.5%, totals may not sum because of rounding.

Table 6A: CHANGES IN LA NET RENTS BY TYPE OF HOUSEHOLD WITH RESTRUCTURING APPROACH Count of households by change from unstructured rents in rent paid by tenants after housing benefit

Range of change £ per week	LA head 60 or over '000	LA head under 60 couple with children '000	LA head under 60 lone parent '000	LA head under 60 no children '000
Down by more than £50	*	*	*	*
Down by £30 to £50	*	*	*	10
Down by £20 to £30	*	10	*	10
Down by £10 to £20	20	20	*	50
Down by £5 to £10	30	40	10	50
Down by £2.50 to £5	40	30	10	30
Down by £1 to £2.50	20	20	*	20
Down by £0.01 to £1	10	20	*	10
Total better off	110	140	30	170
No change	1120	250	440	510
Up by £0.01 to £1	10	20	*	30
Up by £1 to £2.50	50	40	*	20
Up by £2.50 to £5	40	40	*	50
Up by £5 to £10	40	60	*	50
Up by £10 to £20	30	40	*	40
Up by £20 to £30	*	10	*	*
Up by £30 to £50	*	*	*	*
Up by more than £50.00	*	*	*	*
Total worse off	180	210	10	190
Total	1410	590	480	860

Notes: a) 1996 households and April 2000 rents.
b) * signifies less than 5,000 households, totals may not sum because of rounding.

Table 6B: CHANGES IN RSL NET RENTS BY TYPE OF HOUSEHOLD WITH RESTRUCTURING APPROACH Count of households by change from unstructured rents in rent paid by tenants after housing benefit				
Range of change £ per week	RSL head under			
	RSL head 60 or over '000	60 couple with children '000	RSL head under 60 lone parent '000	RSL head under 60 no children '000
Down by more than £50	*	*	*	*
Down by £30 to £50	*	*	*	*
Down by £20 to £30	*	*	*	*
Down by £10 to £20	20	20	*	20
Down by £5 to £10	10	10	*	10
Down by £2.50 to £5	*	*	*	*
Down by £1 to £2.50	*	*	*	*
Down by £0.01 to £1	*	*	*	*
Total better off	50	50	10	30
No change	280	60	140	140
Up by £0.01 to £1	*	*	*	*
Up by £1 to £2.50	*	10	*	*
Up by £2.50 to £5	*	10	*	10
Up by £5 to £10	10	10	*	20
Up by £10 to £20	10	20	*	20
Up by £20 to £30	*	*	*	10
Up by £30 to £50	*	*	*	*
Up by more than £50.00	*	*	*	*
Total worse off	30	50	10	50
Total	360	160	160	230

Notes: a) 1996 households and April 2000 rents.
b) * signifies less than 5,000 households, totals may not sum because of rounding.

Table 7A: REGIONAL CHANGES IN NET RENTS THE "NORTH": NORTH EAST YORKSHIRE AND THE HUMBER; NORTH WEST Count and percentage of households by change from unstructured rents in rent paid by tenants after housing benefit				
Range of change £ per week	LA		RSL	
	'000	%	'000	%
Down by more than £10	20	2%	10	3%
Down by £5 to £10	40	3%	*	2%
Down by £0.01 to £5	70	6%	10	2%
Total better off	130	11%	20	7%
No change	910	74%	190	78%
Up by £0.01 to £5	90	7%	10	3%
Up by £5 to £10	70	6%	20	6%
Up by more than £10	20	2%	10	5%
Total worse off	180	15%	30	14%
Total	1230	100%	240	100%

Notes: a) 1996 households and April 2000 rents.
b) * signifies less than 5,000 households, totals may not sum because of rounding.

Table 7B: REGIONAL CHANGES IN NET RENTS "MIDLANDS AND THE SOUTH WEST": EAST MIDLANDS; WEST MIDLANDS; SOUTH WEST
Count and percentage of households by change from unstructured rents in rent paid by tenants after housing benefit

Range of change £ per week	LA		RSL	
	'000	%	'000	%
Down by more than £10	20	2%	20	10%
Down by £5 to £10	40	4%	20	8%
Down by £0.01 to £5	70	7%	10	5%
Total better off	120	13%	40	22%
No change	600	66%	130	66%
Up by £0.01 to £5	100	11%	10	3%
Up by £5 to £10	50	6%	10	4%
Up by more than £10	40	4%	10	5%
Total worse off	190	21%	20	12%
Total	920	100%	190	100%

Notes: a) 1996 households and April 2000 rents.

Table 7C: REGIONAL CHANGES IN NET RENTS THE "SOUTH": LONDON; SOUTH EAST; EAST OF ENGLAND
Count and percentage of households by change from unstructured rents in rent paid by tenants after housing benefit

Range of change £ per week	LA		RSL	
	'000	%	'000	%
Down by more than £10	80	7%	50	11%
Down by £5 to £10	50	5%	10	2%
Down by £0.01 to £5	50	5%	10	2%
Total better off	190	16%	70	14%
No change	800	67%	310	66%
Up by £0.01 to £5	100	9%	20	5%
Up by £5 to £10	40	4%	20	4%
Up by more than £10	60	5%	50	11%
Total worse off	210	17%	90	19%
Total	1190	100%	470	100%

Notes: a) 1996 households and April 2000 rents.

Table 8A: AFFORDABILITY ANALYSIS – ALL HOUSEHOLDS
Count and percentage of households by affordability ratio.
NB. A lower ratio indicates a more affordable rent.

Affordability ratio	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
0%	1720	51%	490	54%	1820	54%	500	55%
Over 0% up to 5%	120	4%	20	2%	110	3%	20	2%
5% to 10%	220	7%	50	5%	180	5%	50	5%
10% to 15%	430	13%	90	10%	420	13%	70	8%
15% to 20%	350	11%	100	11%	350	10%	110	12%
20% to 25%	240	7%	60	7%	240	7%	70	8%
25% to 30%	160	5%	40	5%	140	4%	50	6%
30% to 40%	80	3%	40	4%	70	2%	30	4%
40% and higher	20	1%	10	1%	20	1%	10	1%
Total	3340	100%	910	100%	3340	100%	910	100%

Notes: a) 1996 households and April 2000 rents.
 b) Totals may not sum because of rounding.
 c) The affordability ratio is defined as (gross rent – HB) / net income before housing costs.
 d) A 0% affordability ratio implies a household's rent is met fully by HB.

Table 8B: AFFORDABILITY ANALYSIS – HEAD OF HOUSEHOLD AGED 60 OR OVER
Count and percentage of households by affordability ratio.
NB. A lower ratio indicates a more affordable rent.

Affordability ratio	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
0%	700	48%	190	49%	770	52%	200	51%
Over 0% up to 5%	90	6%	20	4%	90	6%	10	4%
5% to 10%	90	6%	20	5%	70	5%	20	5%
10% to 15%	140	9%	30	9%	120	8%	30	8%
15% to 20%	180	12%	50	12%	160	11%	40	11%
20% to 25%	140	9%	20	5%	140	9%	30	7%
25% to 30%	90	6%	20	5%	80	5%	30	9%
30% to 40%	30	2%	30	7%	30	2%	10	4%
40% and higher	20	1%	10	3%	20	1%	10	2%
Total	1470	100%	390	100%	1470	100%	390	100%

Notes: a) 1996 households and April 2000 rents.
 b) Totals may not sum because of rounding.
 c) The affordability ratio is defined as (gross rent – HB) / net income before housing costs.
 d) A 0% affordability ratio implies a household's rent is met fully by HB.

Table 8C: AFFORDABILITY ANALYSIS – HEAD OF HOUSEHOLD AGED UNDER 60, COUPLE WITH DEPENDENT CHILDREN
Count and percentage of households by affordability ratio.
NB. A lower ratio indicates a more affordable rent.

Affordability ratio	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
0%	200	36%	50	36%	210	38%	50	36%
Over 0% up to 5%	10	1%	*	0%	10	1%	*	0%
5% to 10%	70	13%	10	8%	40	8%	10	9%
10% to 15%	160	29%	30	18%	180	32%	20	13%
15% to 20%	80	15%	30	21%	90	17%	30	23%
20% to 25%	20	4%	20	12%	20	4%	20	17%
25% to 30%	10	3%	10	5%	*	1%	*	2%
30% to 40%	*	0%	*	0%	*	0%	*	0%
40% and higher	*	0%	*	0%	*	0%	*	0%
Total	560	100%	140	100%	560	100%	140	100%

Notes: a) 1996 households and April 2000 rents.
b) *signifies less than 5,000 households. 0% signifies less than 0.5%.
c) Totals may not sum because of rounding.
d) The affordability ratio is defined as (gross rent – HB) / net income before housing costs.
e) A 0% affordability ratio implies a household's rent is met fully by HB.

Table 8D: AFFORDABILITY ANALYSIS – HEAD OF HOUSEHOLD AGED UNDER 60, LONE PARENT
Count and percentage of households by affordability ratio.
NB. A lower ratio indicates a more affordable rent.

Affordability ratio	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
0%	410	87%	130	87%	420	88%	130	88%
Over 0% up to 5%	10	3%	*	0%	10	2%	*	0%
5% to 10%	*	1%	*	1%	*	1%	*	0%
10% to 15%	10	3%	10	3%	10	2%	*	1%
15% to 20%	10	3%	*	3%	20	4%	10	5%
20% to 25%	10	3%	10	3%	10	2%	10	4%
25% to 30%	10	1%	*	2%	*	0%	*	1%
30% to 40%	*	0%	*	0%	*	0%	*	1%
40% and higher	*	0%	*	1%	*	0%	*	0%
Total	470	100%	150	100%	470	100%	150	100%

Notes: a) 1996 households and April 2000 rents.
 b) *signifies less than 5,000 households. 0% signifies less than 0.5%.
 c) Totals may not sum because of rounding.
 d) The affordability ratio is defined as (gross rent – HB)/net income before housing costs.
 e) A 0% affordability ratio implies a household's rent is met fully by HB.

**Table 8E: AFFORDABILITY ANALYSIS – HEAD OF HOUSEHOLD AGED UNDER 60,
NO DEPENDENT CHILDREN**
Count and percentage of households by affordability ratio.
NB. A lower ratio indicates a more affordable rent.

Affordability ratio	Unrestructured rents				Restructuring approach			
	LA		RSL		LA		RSL	
	'000	%	'000	%	'000	%	'000	%
0%	410	49%	110	51%	410	49%	110	50%
Over 0% up to 5%	10	1%	*	1%	*	1%	*	1%
5% to 10%	50	6%	20	7%	60	7%	10	7%
10% to 15%	110	13%	30	12%	110	13%	20	8%
15% to 20%	80	10%	20	9%	70	9%	30	13%
20% to 25%	80	9%	20	8%	70	9%	10	6%
25% to 30%	50	6%	10	5%	50	6%	10	6%
30% to 40%	50	6%	10	6%	40	5%	20	9%
40% and higher	*	0%	*	1%	*	1%	*	1%
Total	840	100%	220	100%	840	100%	220	100%

Notes: a) 1996 households and April 2000 rents.
b) *signifies less than 5,000 households. 0% signifies less than 0.5%.
c) Totals may not sum because of rounding.
d) The affordability ratio is defined as (gross rent – HB)/net income before housing costs.
e) A 0% affordability ratio implies a household's rent is met fully by HB.

ANNEX D:

Details of Modelling

- D1 The tables in Annex C illustrate the impacts of the restructuring approach on landlords and tenants. They are based on modelling using the 1996 English House Condition Survey (EHCS) database. This section provides further details of the analysis.

Details of the analysis

- D2 A distinction between gross rents and net rents is made. Gross rent is the rent charged by the landlord, whereas net rent is the rent paid by the tenant after the receipt of any Housing Benefit. Therefore, the tables detailing the changes in gross rents give the likely impact on landlords, while the tables detailing net rents give the likely net impact on tenants.
- D3 As the analysis is looking purely at the effects of restructuring, setting convergence aside, the results are presented separately for the local authority and RSL sectors. Hence, the analysis keeps the national average LA and RSL rents fixed at the estimated April 2000 levels of £45.60 per week and £53.50 per week respectively. Therefore, there is no change in the total rental income in either sector, just a change in how that total income is collected.
- D4 In reality, rent restructuring will take place over a ten-year period, between 2002/03 and 2011/12, in conjunction with measures to achieve convergence. Combining the effects of restructuring with the effects of inflation and convergence means that the rents at the end of the ten-year period will differ significantly from those presented in the analysis. However, the analysis should give a reasonable indication of the specific effects of rent restructuring, allowing its implications to be seen more clearly than if an attempt had been made also to incorporate convergence and inflation.

The English House Condition Survey

- D5 The 1996 EHCS was used to simulate the effects of the restructuring approach on the gross rents of social properties and the net rents paid by social tenants. The sample contains around 6,000 social properties and is designed to be statistically representative at the national and regional levels.
- D6 The EHCS is currently carried out every five years by the DETR and looks at the characteristics and occupants of the dwellings sampled. The advantage of using it for modelling the restructuring approach is that it provides detailed information on households, including their income, and dwellings, including their property value.
- D7 The survey collects detailed income information from the head of the household and any partner, identifying each amount separately. This enables the general modelling of people's entitlement to various benefits, such as Housing Benefit, as well as providing the ability to update the calculation of these benefits since the time of the survey.

- D8 The property value information for both local authority and RSL dwellings was obtained in January 1999 by a national firm of locally-based valuers. The valuers estimated the vacant possession value of each of the sampled properties. This value assumed continued residential use, but was not adjusted to reflect the occupation by a secure tenant. So it was based on Existing Use Value for housing.
- D9 As social properties are not sold on the open market as often as private properties, evidence on which to base valuations is less abundant. Valuation evidence was typically obtained from initial Right To Buy (RTB) sales, RTB re-sales and valuations for RTB purposes. For most properties in the sample this provided an adequate number of comparable properties from which a value could be ascertained.
- D10 However, there were areas where the comparable evidence was more limited. The valuers overcame this problem by adopting an investment approach to the valuations, and, very occasionally, by using private house sales as a source of evidence. The resulting values were considered by the valuers to be accurate market values.

Modelling approach

- D11 To model the restructuring approach and its effects it was necessary to:
- update to April 2000 each of the gross rents recorded in the 1996 EHCS;
 - update to April 2000 the incomes (which include earnings, pensions and benefits received) recorded in the 1996 EHCS; and
 - calculate entitlements to Housing Benefit at April 2000 in the context of the updated rents and incomes, and taking account of changes since 1996 in the tax and benefit rules, including the Working Families Tax Credit.
- D12 Carrying out these three tasks allowed the gross rents and net rents resulting from the approach to be modelled at April 2000 levels. These were then compared to the unstructured distribution of gross and net rents at April 2000 levels to give an indication of the likely effects of restructuring on landlords and tenants.
- D13 It should be noted that the results derived from these simulations are indicative only. They are inevitably subject to some statistical error, both in the modelling and sampling. Also they do not take into account the discretion which landlords will, in practice, have over implementation. Nevertheless, the analysis is intended to provide a reasonable illustration of the main effects of the restructuring approach on landlords and tenants.