



Department for
Communities and
Local Government

Guidance on Rents for Social Housing

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If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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Contents

Chapter	Subject	Page
1	Introduction	4
	- Application	4
	- Policy to 2014-15	4
	- Policy from 2015-16	5
	- Our Aims	5
2	Social Rent Guidance	7
	- Key Principles	7
	- Formula Rent	7
	- Uplift of Formula Rent	8
	- Rent Flexibility Level	8
	- Limit on Rent Changes	9
	- Rent Caps	9
	- Property Valuations	9
	- Service Charges	10
3	Affordable Rent Guidance	11
	- Key Principles	11
	- Applicability	11
	- Rent Setting	11
	- Property Valuations	12
	- Limit on Rent Changes	12
	- New and Reissued Tenancies	13
	- Housing Benefit	13
4	Guidance on Rents for Social Tenants with High Incomes	15
	- Key Principles	15
	- Applicability	15
A	Information for Calculating Formula Rents	17
B	Example Calculation of a Formula Rent	20

Chapter 1

Introduction

Application

- 1.1 This guidance sets out the Government's policy on rents for social housing for April 2015 onwards.
- 1.2 It applies to stock-owning local authorities only, though we expect the Social Housing Regulator to have regard to it in setting the Rent Standard for private registered providers. We expect local authorities to have regard to this guidance when setting rents for their housing stock.
- 1.3 This guidance replaces the "Guide to Social Rent Reforms", published by the Department of Environment, Transport and the Regions in 2001, and "A Guide to Social Rent Reform in the Local Authority Sector", issued in February 2003; and any other guidance on rents issued in relation to those documents.

Policy to 2014-15

- 1.4 Since 2001, most rents for social housing ("social rents") have been set based on a formula set by Government. The formula creates a "formula" rent for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property, and landlords are expected to move the actual rent of a property to this formula rent, over time. An aim of this formula-based approach is to ensure that similar rents are paid for similar social rent properties.
- 1.5 Annual changes in social rent levels have also been based on a policy set by Government. Weekly rents are expected to increase by up to RPI + 0.5 percentage points annually, plus up to an additional £2 where the rent is below the formula level for the property. At the 2010 Spending Review, the Government extended this policy for social rent increases to 2014-15.
- 1.6 At the 2010 Spending Review, the Government also introduced "affordable rent". Our policy is that landlords can let properties at affordable rent (up to 80 percent of local market rent) where they have in place an agreement with the Homes and Communities Agency, Greater London Authority (for new housing in London) or the Department (for new housing under the Right to Buy replacement policy) to provide new affordable housing.
- 1.7 Within the terms of the Government's affordable homes programmes, specifically, existing vacant properties can also be "re-let" at affordable rent. Affordable rents are currently expected to increase by no more than RPI + 0.5 percentage points annually.
- 1.8 Affordable rent is designed to maximise the delivery of new affordable housing by making the best possible use of Government investment. It allows us to deliver

more new affordable homes for every pound of upfront Government investment, ensuring more people in housing need are able to benefit from a sub-market rent.

Policy from 2015-16

- 1.9 In announcements made at Budget 2013 and in the 2013 Spending Round, the Government signalled changes to rent policy for social housing.
- 1.10 At Budget 2013, the Government signalled its intention to set out, in the Spending Round, a rent policy to apply for ten years from 2015-16. This commitment was in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment – and so provide more new affordable homes, improve existing affordable homes, and provide good services to their tenants.
- 1.11 The Government also set out its aim that those in social rented housing with high incomes should pay a fairer level of rent. We believe that, where a social tenant household has an annual income of at least £60,000, the landlord should be able to charge them the full market rent, rather than being expected to continue to provide them with a sub-market rent. This would allow landlords to make best use of social housing, and would mean a sub-market rent is provided only to those tenants who clearly need it.
- 1.12 At the Spending Round, the Government then gave certainty to social landlords by confirming that, from 2015-16, rents in the social sector should increase by up to CPI + 1 percentage point annually, for ten years. The move from RPI to CPI follows the Office for National Statistics' announcement in January 2013 that the formula used to produce the Retail Price Index does not meet international standards. As a result, the Government is looking to move to the Consumer Price Index, where possible, where an inflation-index is currently being used in policy.
- 1.13 The basis upon which social rents and affordable rents are set, as set out above, is to continue to apply.
- 1.14 Under this policy, the majority of existing rented properties in the social sector will continue to be let at social rent; and we expect the majority of new properties will continue to be let at affordable rent.
- 1.15 This guidance explains, in further detail, the basis on which local authorities are expected to set their rents from April 2015 onwards.

Our Aims

- 1.16 The Government's aims for its new rent policy are to:
 - Ensure that rents for social housing remain affordable in the long-term.
 - Protect social tenants from excessive increases in rents.
 - Ensure rents take account of local conditions.

- Provide long-term certainty and stability to social tenants, social landlords and their funders, in order to:
 - Enable tenants to understand their future housing costs better;
 - Enable landlords to plan for future investment better;
 - Encourage landlords to invest in new affordable housing, helping more people in need;
 - Support landlords to drive value for money; and
 - Give investors confidence in social housing.
- Give landlords significant income to invest in the maintenance and improvement of existing homes, the provision of new affordable homes, and in providing good services to their tenants.
- Control public expenditure – principally, housing benefit costs.
- Support landlords to charge a fairer rent to those social tenant households with high incomes.

1.17 In particular, in coming to a decision on an appropriate basis for increasing rents in future, we have tried as far as possible to balance the need to ensure rents remain affordable, with the need to ensure that landlords have the income they need to remain in good financial health and to invest, particularly in new affordable homes.

1.18 For local authorities, specifically, our aim is also to support them to make use of the opportunities presented by self-financing. Ten years of rent certainty should put them in a strong position to plan strategically and utilise the freedoms they now have following our reforms – including the ability to keep full rental income – and invest in homes and services.

Chapter 2

Social Rent Guidance

Key Principles

- 2.1 Unless the conditions outlined in chapter 3 or 4 of this guidance are met, our expectation is that social housing properties let by local authorities should have their rents typically set on a social rent basis.
- 2.2 Under social rent policy, rents should be set based on a formula. This formula should enable local authorities to set rents at a level that allows them to meet their obligations to their tenants and maintain their stock, while maintaining a credit balance on their Housing Revenue Accounts.
- 2.3 The Government wants social rents to take account of:
- The condition and location of a property – reflected in its value;
 - Local earnings; and
 - Property size (specifically, the number of bedrooms in a property).
- 2.4 Property value provides a simple way of reflecting the attractiveness and quality of the property. Local earnings ensure that rents take account of how much income people have, helping them to remain affordable. And property size helps to ensure that properties with more bedrooms have a proportionately higher rent, as would be expected.
- 2.5 Our expectations for the setting of social rents are set out below.

Formula Rent

- 2.6 The basis for the calculation of formula rents is:
- 30 percent of a property's rent should be based on relative property values;
 - 70 percent of a property's rent should be based on relative local earnings; and
 - a bedroom factor should be applied so that, other things being equal, smaller properties have lower rents.
- 2.7 This can be expressed as a formula, in which the formula rent for a property is calculated using the following approach:

Weekly formula rent is equal to:

	70% of the national average rent
	Multiplied by relative county earnings
	Multiplied by the bedroom weight
Plus	
	30% of the national average rent
	Multiplied by relative property value

National average rent means the national (England) average rent in April 2000.

Relative county earnings means the average manual earnings for the county in which the property is located divided by national average manual earnings, both at 1999 levels. Appendix A contains details of the earnings data to be used.

Relative property value means an individual property's value divided by the national (England) average property value, as at January 1999 prices.

- 2.8 The amounts to use for the national average rent, national average manual earnings and the national average property value are set out at Appendix A. Bedroom weights are also set out at Appendix A.
- 2.9 For the vast majority of social rent properties, a formula rent has already been set. There will however be some cases where a formula rent is not in place – usually, only for new properties developed or acquired. Where this is the case, and the property is to be let at social rent, a formula rent will need to be calculated.

Uplift of Formula Rent

- 2.10 Putting the relevant information into the above formula will give the formula rent for 2000-01 for the property. The 2000-01 formula rent should then be up rated, for each year, using the relevant uplift.
- 2.11 For 2001-02 to 2014-15, the uplift for each year is the Retail Price Index (RPI) at September of the previous year plus an additional amount. In 2001-02, that additional amount is 1.0 percent; for all other years, it is 0.5 percent. The uplifts for each of these years are shown in the table at Appendix A.
- 2.12 From 2015-16 to 2024-25, the uplift for each year should be the Consumer Price Index (CPI) at September of the previous year plus 1.0 percent.

Rent Flexibility Level

- 2.13 The Government's policy recognises that authorities should have some discretion over the rent set for individual properties, in order to take account of local factors and concerns, in consultation with tenants.
- 2.14 As a result, the policy contains flexibility for authorities to set rents at up to 5 percent above formula rent (10 percent for supported housing and sheltered housing). We expect authorities to use this flexibility in a balanced way, and not set all rents at 5 percent (or 10 percent) above the formula rent.
- 2.15 Where a rent is at a level that is more than 5 percent (or 10 percent) above the formula rent in 2015-16, it should be brought within the flexibility level over time, either through applying a rent increase of less than CPI + 1 percentage point, or through lowering the rent when the property becomes vacant and is re-let. In terms of lower rent increases, we expect this to be done in a way that brings the rent within the flexibility level within a reasonable period of time, whilst ensuring financial viability is maintained.

Limit on Rent Changes

- 2.16 From April 2015, we expect local authorities to increase rents by no more than CPI (at September of the previous year) + 1 percentage point in any year.
- 2.17 As set out above, formula rents should also increase by CPI + 1 percentage point each year, from 2015-16. In practice, due in part to the annual limit on weekly rent increases between 2001-02 and 2014-15, of RPI + 0.5 percentage points + £2, some properties will not have reached formula rent by April 2015. Where this is the case, we expect authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let following vacancy.

Rent Caps

- 2.18 Local authorities are expected to apply the rent caps in determining formula rents.
- 2.19 The rent caps apply as a maximum ceiling on the formula rent, and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap should be used instead.
- 2.20 Up to 2014-15, rent caps were inflated annually by RPI (at September of the previous year) + 1 percentage point. From 2015-16 onwards, rent caps should increase by CPI (at September of the previous year) + 1.5 percentage points annually.
- 2.21 While rent caps should increase annually by CPI + 1.5 percentage points, the annual change in rent for the tenant in a “rent capped” property should still be governed by the CPI + 1 percentage point limit on rent changes.
- 2.22 However, where a property whose rent is governed by the rent cap comes up for re-let (and formula rent remains above the rent cap), the new rent charged should be based on the rent cap level – which should have been increasing by CPI + 1.5 percentage points, rather than CPI + 1 percentage point.
- 2.23 Where a rent is above the rent cap level, local authorities should look to reduce the rent level over time so that it is within the cap.
- 2.24 Rent caps for 2014-15 are set out in Appendix A.

Property Valuations

- 2.25 To ensure consistency between local authorities, a common approach should be followed to the valuation of properties for rent purposes, as far as possible.
- 2.26 In calculating the formula rent, the value of the property should be based on an existing use value, assuming vacant possession and continual residential use.
- 2.27 Existing use values should be produced by the comparative method and not by a discounted cash flow method.

- 2.28 Existing use value is not the same as “existing use value – social housing”, which is typically used for resource accounting purposes, and makes a downward adjustment to the existing use value to reflect the lower value of properties when used for social housing.
- 2.29 A downward adjustment to open market valuations – to reflect factors such as sub-market rents – should not be made for social rent purposes. It would add complication and introduce circularity by allowing the pattern of current rents to influence the pattern of formula rents.
- 2.30 As set out above, the valuation should be made at January 1999 prices.
- 2.31 As the price base is constant, the valuation of a property for social rent purposes should generally remain the same, over time. However, an authority may want to revalue where it has carried out major works that materially affect the value of the property.
- 2.32 In terms of method, authorities are not expected to carry out an individual valuation for each property – this would not be practicable or desirable – though they will need to attribute a value to each social rent property in order to calculate its formula rent. Rather than carrying out individual valuations, an option would be to focus instead on more generic valuations for particular types and sizes of properties in different locations.

Service Charges

- 2.33 In addition to their rent, tenants may also pay service charges. Rents are generally taken to include all charges associated with the occupation of a property, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling. Service charges are subject to separate legal requirements and are limited to covering the cost of providing the services.
- 2.34 Authorities are expected to set reasonable and transparent service charges which reflect the service being provided to tenants. For social rent, they are also expected to identify service charges separately to the rent charge.
- 2.35 Service charges are not governed by the same factors as rent. However, authorities should endeavour to keep increases for service charges within the limit on rent changes, of CPI + 1 percentage point, to help keep charges affordable.
- 2.36 The only exception to this expectation is where new or extended services are introduced, where we expect an additional charge may need to be made. Where this is the case, authorities are expected to consult appropriately with tenants before introducing new or extended services and associated charges.

Chapter 3

Affordable Rent Guidance

Key Principles

- 3.1 Properties let on affordable rent terms fall within the definition of social housing, but are exempt from the social rent expectations outlined in chapter two of this guidance.
- 3.2 Affordable rent allows local authorities to set rents at levels that are typically higher than social rents. The intention behind this flexibility is to enable them to generate additional capacity for investment in new affordable housing. Affordable rent therefore allows for more new affordable homes to be built for every pound of upfront Government investment, meaning more people in need can be housed at sub-market rents than would otherwise be the case.
- 3.3 This chapter sets out our policy on affordable rent, and our expectations of stock-owning local authorities who let affordable rent properties.

Applicability

- 3.4 Local authorities should only let properties on affordable rent terms:
 - Where they have a Framework Delivery Agreement in place with the Homes and Communities Agency or Greater London Authority, under the Government's affordable homes programmes; or
 - Where the Homes and Communities Agency or Greater London Authority have indicated that the new supply they propose to provide represents value for money, for new build affordable housing that is not funded (in part) by Government grant; or
 - Where they have an agreement in place with the Secretary of State, to retain additional Right to Buy receipts for investment in new affordable rented homes.

Rent Setting

- 3.5 Homes let on affordable rent terms should be made available at a rent level of up to 80 percent of gross market rents, inclusive of service charges where these are applicable.
- 3.6 Gross market rents generally include any service charges, and these, as well as the property size and location, should be taken into account when determining what rent level a property might achieve.
- 3.7 A tenancy where a local authority is the landlord is excluded from the mainstream Local Housing Allowance rules. Whilst we do not propose to set maximum rents

above which local authorities should not charge for affordable rent properties, authorities should have regard to the local market context, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located, when setting affordable rents.

- 3.8 An affordable rent should be no lower than the potential formula rent for the property. In cases where the rent would be lower than the formula rent, the formula rent should constitute a floor for the rent to be charged.
- 3.9 Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an affordable rent level for housing for vulnerable and older people, the gross market rent comparables should be based on similar types and models of service provision, ideally within the local area. Where there are insufficient comparables for similar types of provision in the local area, valuers should be requested to identify comparables from other areas and extrapolate their best estimate of what the gross market rent should be. Local authorities should then set the initial rent up to 80 percent of that level.
- 3.10 Local authorities should also be mindful of the need to comply with the terms of agreements with the Homes and Communities Agency or Greater London Authority, in setting rents. They should also have regard to the conditions and policies set out in the Frameworks for the Government's affordable homes programmes, where they are letting properties on affordable rent terms within these programmes.

Property Valuations

- 3.11 Valuations for initial rent setting should be made in accordance with a method recognised by the Royal Institution of Chartered Surveyors. This expectation is intended to help ensure that authorities adopt a consistent and transparent approach to the valuation of market rents.
- 3.12 The Royal Institution of Chartered Surveyors sets out its principles for valuations in "Royal Institution of Chartered Surveyors Valuation – Professional Standards" (known as the Red Book). This is available free to their members and can be purchased online or as a hard copy.
- 3.13 Local authorities may not always need to undertake a full valuation on each occasion that a property is let on affordable rent terms. In areas where affordable rent is widely used, local authorities may have a rolling schedule of tenancies coming up for re-issue or re-let. Where that is the case, over time, local authorities may have adequate comparables readily to hand, and there may be no need for a full valuation. Where this is so, authorities may want to rebase rents using a desktop review of recent transactions.

Limit on Rent Changes

- 3.14 Local authorities should increase rents for properties let on affordable rent terms by no more than CPI + 1 percentage point each year. CPI should be taken as at September of the previous year.

New and Reissued Tenancies

- 3.15 On each occasion that an affordable rent tenancy is issued for a property – whether it is let to a new tenant, or an existing tenancy is re-issued – local authorities should re-set the rent based on a new valuation, to ensure it remains at no more than 80 percent of the relevant market rent.
- 3.16 The only exception to this is where the accommodation is re-let to the same tenant as a consequence of a probationary tenancy coming to an end. In this case, an authority is not expected to re-set the rent.
- 3.17 This expectation overrides the CPI + 1 percentage point limit on rent changes.

Housing Benefit

- 3.18 The Government has implemented a process to allow properties let on affordable rent terms by local authorities to be treated outside of the Rent Rebate Subsidy Limitation scheme.
- 3.19 To claim Housing Benefit subsidy above the limit rent for affordable rent properties, an authority must show the auditor of their subsidy claim form a letter signed by their Section 151 Officer, addressed to the Department, which:
- Lists the addresses of all affordable rent properties – broken down between existing homes that have been converted to affordable rent, and newly built homes let at affordable rent;
 - Confirms that the rents will not rise except in line with Government policy;
 - Confirms any properties re-let have had their rents re-set, if needed, to ensure they remain at no more than 80 percent of market rent;
 - Confirms that all income derived from the higher rent has been spent or will be spent – and only spent – on new affordable housing;
- 3.20 Plus, for new build housing that is not funded (in part) by Government grant:
- Confirms that the schemes' finances have been approved by the Homes and Communities Agency or Greater London Authority;
- 3.21 And for housing that is provided under the Government's programmes:
- Confirms that the amount of capacity generated by conversions of existing properties to affordable rent is no greater than that specified in their delivery agreement with the Homes and Communities Agency or Greater London Authority.
- 3.22 It should be noted that we will not permit existing properties to be excluded from the Rent Rebate Subsidy Limitation system unless they have been converted to affordable rent in line with the terms of an authority's delivery agreement with the Homes and Communities Agency or Greater London Authority, under the

Government's affordable home programmes. Otherwise affordable rent housing that is provided without funding from Government will only be excluded if it is new build housing (subject to the following two paragraphs).

- 3.23 The Government has implemented a similar process for homes provided using additional Right to Buy receipts that have resulted from the increase in sales arising from our increase in the discount cap for Right to Buy.
- 3.24 In this case, to claim Housing Benefit subsidy above the limit rent, an authority must show their auditor:
- A copy of their agreement with the Secretary of State, which enables them to retain additional Right to Buy receipts; and
 - A statement signed by their Section 151 Officer which confirms that the homes in question have been built or acquired using Right to Buy receipts in line with the conditions set out in the agreement.

Chapter 4

Guidance on Rents for Social Tenants with High Incomes

Key Principles

- 4.1 The Government believes that local authorities should be able to charge those in social housing with high incomes a fairer level of rent to stay in their homes.
- 4.2 This would help them to make best use of social housing. It would give them additional income to invest in new social housing – helping more people in housing need – and would help ensure sub-market rents are being provided only to those tenants who clearly need them.
- 4.3 As a result, the Government does not expect local authorities to adhere to its social rent policy expectations in relation to social tenants with high incomes.
- 4.4 We encourage local authorities to implement rent policies for social tenants with high incomes that reflect the aims outlined above. Where they do so, we expect them to follow some general principles, set out below.

Applicability

- 4.5 The expectations in chapters two and three do not apply to properties let to households with an income of at least £60,000 per year.
- 4.6 In this context, by household, we mean tenants named on the tenancy agreement, and any named tenant's spouse, civil partner or partner where they reside in the rental accommodation. By income, we mean taxable income in the tax year ending in the financial year prior to the financial (i.e. rent) year in question.
- 4.7 To give an example, the income received in the 2013-14 tax year would guide the rent payable in the 2015-16 rent setting year, where a household was above the threshold. Here, 2013-14 is the "tax year ending (on 5 April 2014) in the financial year (2014-15) prior to the financial (i.e. rent) year in question (2015-16)".
- 4.8 Where a household is subject to a sudden and ongoing loss of income, having declared that they are above the threshold, we would expect authorities to reconsider the rent that household is being charged, and amend if appropriate.
- 4.9 Where a high income social tenant's tenancy comes to an end, and they vacate the property, we would expect properties to typically be re-let in line with their previous lower rent¹ – be it at social rent or affordable rent – to a household in housing need.

¹ This expectation is not intended to restrict the re-letting of vacant properties at affordable rents within the Government's affordable homes programmes.

- 4.10 Further information on income in scope can be found at:
www.hmrc.gov.uk/incometax/taxable-income.htm.
- 4.11 Where there are more than two incomes within the household, as defined, we would expect the two highest incomes only to be taken into account.
- 4.12 We expect authorities to use additional capacity generated to fund new affordable housing, where possible.

Appendix A

Information for Calculating Formula Rents

1. This appendix provides the information, apart from property-specific details, that is needed to calculate formula rents.

Rents

2. The national average rent that should be used, for April 2000, is £54.62.
3. This was the national average rent for private registered providers for April 2000. A decision was taken to use this amount in calculating formula rents for local authorities following consultation on the three year review of rent restructuring, in 2004. This decision was taken to ensure the same formula was used to calculate rents for all tenants of social rent properties, regardless of whether they rented from a local authority or housing association.

Property Values

4. The national average property value to be used, for January 1999, is £49,750.
5. This was the national average property value for private registered providers at January 1999. A decision was taken to use this amount following the three year review, for the same reason as outlined above.

Earnings

6. County earnings data to be used is in the following table:

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 and 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

7. These figures are derived from the New Earning Survey (produced by the Office for National Statistics) and represent the average gross weekly earnings of full-time manual workers over the 1997 to 1999 period, uprated to 1999 prices. Pre-1996 counties are used, because of the problems of small sample sizes for what were (at the time) some of the new counties, especially unitary authorities.

Bedroom Weights

8. The following bedroom weights should be used (specifically, applied to the earnings term in the formula):

Number of bedrooms	Bedroom weight
0 (i.e. bedsits)	0.80
1	0.90
2	1.00
3	1.10
4	1.20
5	1.30
6 or more	1.40

9. 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.

Uprating of Formula Rents

10. Once a formula rent for 2000-01 has been calculated, it should be up rated for each year using the figures outlined in the following table:

Year	RPI Inflation	Additional	Total
2001-02	3.3%	1.0%	4.3%
2002-03	1.7%	0.5%	2.2%
2003-04	1.7%	0.5%	2.2%
2004-05	2.8%	0.5%	3.3%
2005-06	3.1%	0.5%	3.6%
2006-07	2.7%	0.5%	3.2%
2007-08	3.6%	0.5%	4.1%
2008-09	3.9%	0.5%	4.4%
2009-10	5.0%	0.5%	5.5%
2010-11	-1.4%	0.5%	-0.9%
2011-12	4.6%	0.5%	5.1%
2012-13	5.6%	0.5%	6.1%
2013-14	2.6%	0.5%	3.1%
2014-15	3.2%	0.5%	3.7%

11. For 2015-16 onwards, the formula rent should be up rated annually by CPI (at September of the previous year) + 1 percentage point.

Rent Caps

12. Formula rent caps for 2014-15 are as outlined in the following table:

Number of bedrooms	Rent cap
1 and bedsits	£137.71
2	£145.80
3	£153.90
4	£162.00
5	£170.10
6 or more	£178.19

13. From 2015-16, rent caps will increase by CPI (at September of the previous year) + 1.5 percentage points, each year.

Appendix B

Example Calculation of a Formula Rent

1. Consider a three-bed local authority property in Leicestershire, for which the capital value is estimated to be £55,000 in January 1999.
2. The information needed to calculate the formula rent is in Appendix A. From this information:

Average rent at April 2000	£54.62
Average earnings in Leicestershire	£303.10
National average earnings	£316.40
Bedroom weight	1.10
National average property value in January 1999	£49,750

3. Putting these figures into the formula:

70% of the average rent	$70\% \times £54.62$	£38.23
Multiplied by relative county earnings	$\times £303.10 / £316.40$	£36.62
Multiplied by bedroom weight	$\times 1.10$	£40.29 subtotal
30% of the average rent	$30\% \times £54.62$	£16.39
Multiplied by relative property value	$\times £55,000 / £49,750$	£18.12 subtotal
Adding together the sub-totals	£40.29 + £18.12	£58.41 total

4. In this example, the initial formula rent for 2000-01 is £58.41 – provided this amount is not higher than the rent cap for the size of property. If it is higher, then the formula rent should be replaced by the rent cap amount.
5. Otherwise, the formula rent for future years is then calculated by uprating this amount using the figures outlined for each year in Appendix A.