

Schedule 21

Housing Corporation Circular 27/01



Housing Corporation Circular

Number: 27/01-Regulation	Date First Issued: 22 October 2001
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Note: 'Housing association' is used as a generic term for registered social landlords.

'Corporation' means Housing Corporation.

Title: Rent influencing regime – implementing the rent restructuring framework

Summary: Guidance on implementing the rent restructuring framework

This Circular Is For The Attention Of:

(tick to indicate which)

- ✓ Registered Social Landlords; more than 250 properties
- Registered Social Landlords; less than 250 properties
- Co-ownership Societies
- Co-ownership Equity Sharing Societies
- Almshouse Charities
- Abbeyfield Societies
- Co-operatives
- ✓ Local Authorities
- Registered Social Landlords' Auditors
- Registered Social Landlords' Solicitors

● **Relevant Legislation:**

- Government Housing Policy Statement, 12/00, *Quality and choice: a decent home for all – the way forward for housing*
- Government Guide 3/01, *Guide to social rent reforms*

● **Regulation and/or Policy Requirements:**

- Housing Corporation Regulatory Code 3.1
- Housing Corporation Guidance: *Rent Influencing Regime, Implementing the Rent Restructuring Framework* (attached to this circular as a PDF document)
- Appendix H to *Rent Influencing Regime, Implementing the Rent Restructuring Framework* (issued under circular 30/01-Regulation)

● **This circular replaces circular number:**

N/A

Housing Corporation Circular

1 Definitions

See the glossary in Housing Corporation Guidance: *Rent Influencing Regime, Implementing the Rent Restructuring Framework*

2 Corporation Expectations and/or Policy

- i. Housing associations must begin to restructure their rents from 1st April 2002.
- ii. Housing Associations must comply with the requirements set out in Housing Corporation Guidance: *Rent Influencing Regime, Implementing the Rent Restructuring Framework* which can be downloaded from our website at www.housingcorp.gov.uk

3 Assessing Compliance

See section 7 of our guidance *Rent Influencing Regime, Implementing the Rent Restructuring Framework*.

4 Enquiries about this circular should be directed to:

- Your Lead Regulator or Financial Appraisal contact in your Corporation Field Office

or

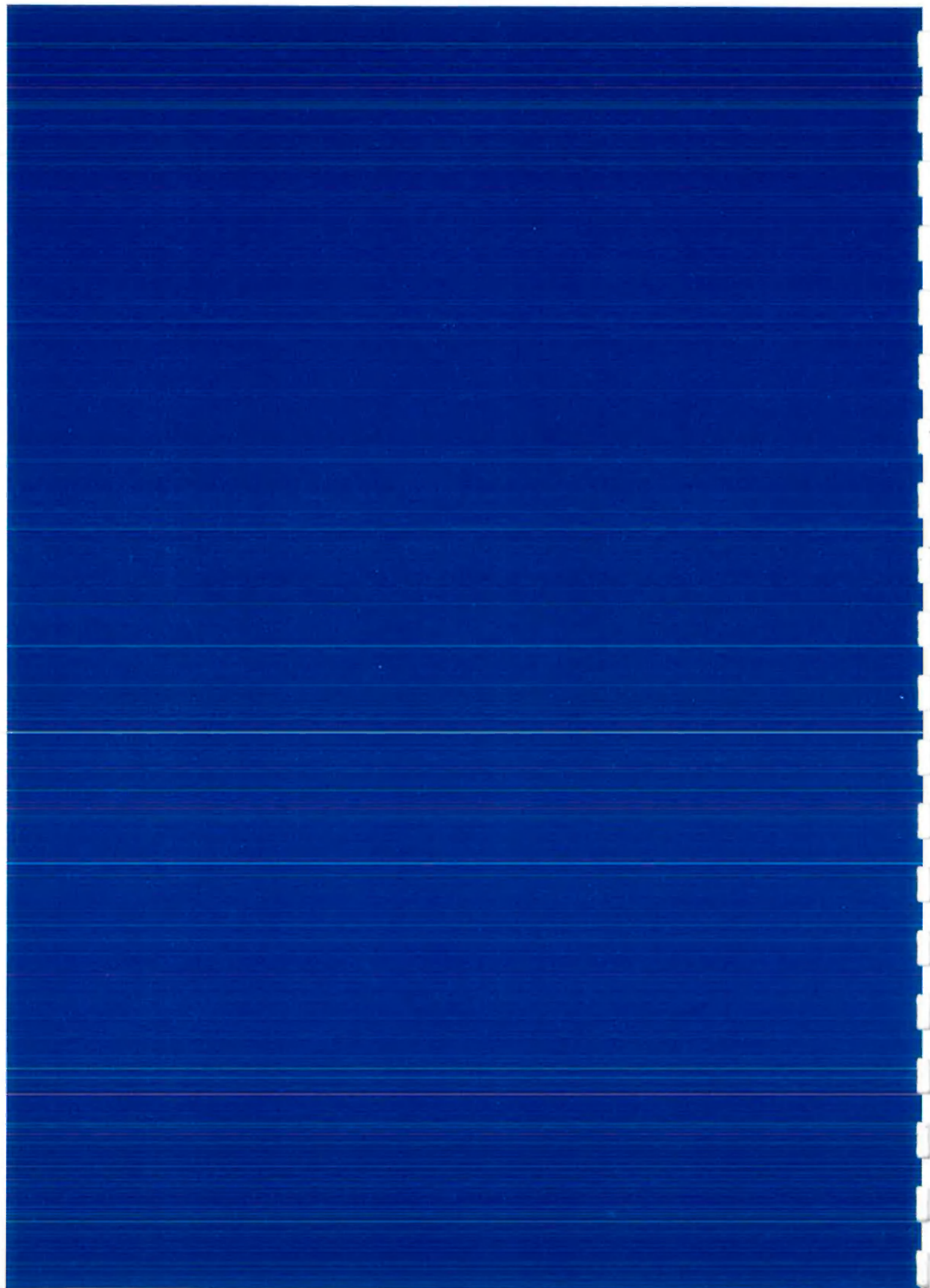
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THE HOUSING
CORPORATION

Rent influencing regime

Implementing the rent restructuring framework



FOREWORD

This guidance sets out a new framework for influencing housing association rents. The framework should assist housing associations in delivering their part of the Government's policy of establishing a more coherent pattern of rents across both the local authority and housing association sectors.

The approach proposed in our March consultation document has been developed to reflect the views of respondents. The essentials, however, remain the same. Each association should plan to produce a pattern of rents which, over the next ten years, conforms broadly to the pattern proposed by the Government.

The Corporation expects each association to have an initial plan ready by April 2002. We will not call in plans from those who expect to achieve target rents by 2012; but we shall monitor progress through regular returns and the lead regulation process. Any association which is experiencing difficulty in establishing such a plan should speak to its lead regulator. The guidance recognises that there are potentially over-riding concerns, and plans will need to reflect them. Smaller associations should also plan to achieve target rents to the same timescale. But the scale and nature of any planning should be commensurate with the scale and nature of the association.

Associations should bear in mind they have some flexibility in setting target rents and discretion in the profile they adopt to get there, although it is in no-one's interests to proceed in fits and starts.

Overall, we intend to implement this policy in keeping with our new regulatory style. We shall be establishing an internal panel so that we can develop a consistent approach, particularly in dealing with difficult cases. We expect to learn as we implement this policy; and we expect associations will learn with us.

Bob Dinwiddy
Assistant Chief Executive
Regulation and Best Value

October 2001

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1 INTRODUCTION

- 1.1 The housing policy statement published in December 2000, *Quality and choice: a decent home for all — The way forward for housing* sets out the Government's objective that rent setting in the social housing sector be brought onto a common system based on relative property values and local earnings levels. The proposals affect both local authorities (LAs) and housing associations (HAs). Copies of the statement and the subsequent *Guide to social rent reforms* (March 2001) are available from the Department of Transport, Local Government and the Regions' (DTLR) website at www.dtlr.gov.uk.
- 1.2 Our current requirements on rents and service charges for HAs are set out in *Performance Standards, third edition* (Standard D), published in December 1997. We are now reviewing Performance Standards and have issued a consultation paper setting out our proposals to replace Performance Standards with a Regulatory Code. Copies of *Our regulatory approach — the Regulatory Code and guidance* are available from our publications unit and on our website at www.housingcorp.gov.uk. We propose to adopt a regulatory approach where associations share with us a common agreement about the outcomes they should achieve. We shall group these outcomes together in a Regulatory Code, which we propose to implement on 1 April 2002.
- 1.3 The principles that will apply for rents and service charges in the Regulatory Code and guidance will reflect the introduction of the rent restructuring framework set out in this document. Compliance with this framework will also be taken as compliance with the relevant sections of the Regulatory Code.
- 1.4 In March 2001 the Housing Corporation consulted widely on our proposals for the implementation of the rent restructuring framework and we received responses from a wide range of HAs and other stakeholders. A summary of the responses received will soon be available on our website.
- 1.5 While our consultation paper sought comments on the implementation of the Government's policy objectives, we received a wide range of comments on both policy and implementation issues. We have considered these representations and, after discussions with the DTLR, the following changes have been agreed:
 - the exclusion from the rent restructuring framework of a number of categories of social housing, e.g. key worker accommodation;
 - HAs may choose to delay implementation of rent restructuring for supported housing until April 2003 and still have a full ten years to implement;
 - the introduction of a 'supported housing allowance' giving an additional 5% flexibility, i.e. 10% flexibility in total, to set rents higher or lower than target rents, for all supported housing and sheltered housing where residents of the property may attract Supporting People Grant;
 - on new SHG-funded developments, rents will be phased in line with an HA's comparable existing stock and the grant rate will reflect this.

- 1.6 Ministers also recognise that there are potential problems associated with the small number of existing properties that would have very high rents under the reforms, and are considering proposals for tackling these. Ministers will not, however, be revisiting the fundamental basis of the approach set out in the December policy statement, which followed extensive consultation and sought to balance several competing objectives.
- 1.7 A number of other issues raised in the consultation responses, particularly on implementation, are also reflected in this document.
- 1.8 Recognising that HAs face a challenging timetable to be ready to implement the framework from 1 April 2002, we issued Circular R2-20/01 in July 2001, which is also available on our website, to enable HAs to start valuing their stock and developing their rent plans. The Circular confirmed:
 - the valuation criteria as set out in our consultation paper;
 - the categories of social housing that are excluded from the framework; and
 - the discretionary one-year delay for supported housing.
- 1.9 Recognising the complexity of implementing rent restructuring and the Supporting People proposals for supported housing, the DTLR set up a working group, which included representatives of the Corporation, the National Housing Federation (NHF), SITRA and the LGA, to explore the detailed issues arising in implementing rent restructuring for supported housing. This included consideration of:
 - housing management income and expenditure;
 - maintenance costs;
 - loan repayments; and
 - valuation issues.

This guidance reflects the conclusions reached by the Government in the light of the work of this group and additional valuation guidance for supported housing will be published soon.

- 1.10 As part of the Government's response to the Race and Housing Inquiry's Challenge Report, the Minister announced a review of how the rent reforms affect BME HAs. The review team will include the NHF Council's BME representative, together with representatives of DTLR and the Housing Corporation. The output of the review will be a report to Ministers drawing conclusions about the impact on the BME HA sector, to be delivered by the end of this year. This may or may not lead to future developments in policy. Meanwhile BME HAs should prepare rent plans in line with this guidance.
- 1.11 This guidance now confirms how we will implement the rent influencing regime, describing:
 - i) the key principles under which the regime will operate; and
 - ii) how we will implement Ministers' policies from April 2002 when HAs are expected to operate under an RPI+0.5% guideline limit, and to restructure their rents in accordance with the rent formula.

2 KEY PRINCIPLES

- 2.1 The key principles of our rent influencing regime are set out below.
- 2.2 HAs will be able to set rents at a level that enables them to meet their obligations to their tenants, maintain their stock and continue to function as financially viable organisations, including meeting their commitments to lenders.
- 2.3 The rent influencing regime 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 rent restructuring framework. The guideline limit is currently RPI+1% and will move to RPI+0.5% from 1 April 2002. As **individual** target rents should only increase by the guideline limit, calculation of a 'rent envelope' will no longer be appropriate after April 2002.
- 2.4 HAs will be expected to produce an annual rent plan that demonstrates how they will achieve rent restructuring over the 10-year implementation period. Our initial assessment of compliance will be based on information in the Regulatory & Statistical Return (RSR) relating to average weekly rents and average weekly target rents by bedroom size for each local authority area in which an HA has stock. So, although the rent plan will be the key regulatory tool by which we will assess compliance with the rent influencing regime, we will not routinely collect the plan for each HA.
- 2.5 The rent influencing regime applies to the whole of an HA's mainstream social rented housing stock, whether it is grant funded or not. Some categories of social housing and all non-social housing are exempted from rent restructuring. A full description of those categories of social housing that are exempted from the framework is set out in section 3 of this guide.
- 2.6 Many tenants pay service charges as well as rent, but it would be inappropriate to apply the precise restructuring formula to these charges given their different nature. Service charges should be limited to covering the cost of providing the services. HAs should, therefore, properly distinguish between rents and service charges before applying the rent restructuring framework. As HAs strive for continuous improvement, we expect increases for Housing Benefit eligible service charges to be within the guideline limit for increases.
- 2.7 Restructuring will take place over a 10-year period and be broadly complete by 31 March 2012. HAs will have to determine the annual adjustment required to meet their existing contractual commitments and to deliver rent restructuring by the end of the 10-year period. This is subject to the requirement that an individual rent does not change by more than £2 a week, in addition to the guideline limit — i.e. RPI+0.5% plus or minus £2, in any one year.
- 2.8 We expect HAs to review all their costs in seeking to comply with the guideline limit and rent restructuring framework. Furthermore we expect such a review to take place

within ongoing Best Value activities. The disciplines offered by Best Value will be well known to HAs — challenging all activities and how they are provided; encouraging comparisons with others; considering alternative ways to provide services while ensuring that tenants' interests are taken into account.

- 2.9 In deciding whether to challenge an HA's rent levels, or their rate of increase, our paramount concern will be to protect the public and private investment in its stock and to retain the confidence of lenders.
- 2.10 HAs must develop and manage decent, good quality homes, ensuring that their repair, maintenance and improvement programmes are sufficient to bring them all up to a decent standard within the 10-year period, and to maintain them in a lettable condition, in accordance with their regulatory, statutory and contractual obligations.
- 2.11 To comply with good practice principles and our Regulatory Code, we expect HAs to ensure that all their tenants have information about their rent policy and plan, including rent levels across the HA's stock in the relevant local authority area. We are currently working with the NHF to produce guidance on how this can best be achieved.
- 2.12 If an HA believes it cannot reasonably achieve the target rents over the 10-year implementation period it should contact its lead regulator. Where possible this should be by 31 December 2001 in order to give sufficient time for the rent plan to be completed by April 2002. We will carry out a rent investigation and, if appropriate, agree to extend the implementation period. We will review progress against the plan periodically. If circumstances change, we will review the HA's position taking careful consideration of existing commitments, including those to existing lenders.
- 2.13 Similarly, if an HA expects to breach the guideline limit of RPI+0.5%, we will carry out a rent investigation before agreeing to the breach. As planning assumptions can change, we will periodically review the position in the light of the HA's financial position at that time. Any agreement will, therefore, be subject to periodic review rather than be time limited.
- 2.14 All HAs that own or manage more than 250 units, should provide annually to all their residents and the local authorities with which they work a summary of their rents policy, summary information on the current levels of rents for different sizes of homes and any changes since the previous summary, information on the HA's own average rents for the different sizes of homes in the resident's LA area with the equivalent information for other HAs with homes in that area (information that we will provide).
- 2.15 In determining a policy on relets, and an overall approach to achieving rent restructuring, an HA is encouraged to discuss this with the local authority.

3 APPLICABILITY OF THE RENT INFLUENCING REGIME

- 3.1 The rent restructuring framework applies to all HAs but is restricted in its application to mainstream social rented housing. Specific exemption is given for the following categories of social housing (a full description of social housing is shown in Appendix A):
- temporary social housing/short-life leasing schemes for homeless families;
 - Private Finance Initiative schemes which involve ownership or management of social housing;
 - management contracts of publicly owned housing for rent;
 - Home Office contracted accommodation for asylum seekers;
 - residential care homes (under Part I of the 1984 Registered Homes Act);
 - shared ownership and low cost home ownership schemes;
 - accommodation for workers in key public services at below market rents.
- 3.2 We do not propose to apply the rent restructuring framework to schemes that are managed but not owned by an HA nor to residential care homes because of the contractual arrangements with the commissioning authority.
- 3.3 While any contracts that involve the management of local authority housing for rent are excluded from rent restructuring by HAs, the housing will be subject to the rent restructuring framework for local authorities and they are responsible for ensuring compliance with this.
- 3.4 Our description of social housing does not include market rented schemes, schemes with rents at a level above social housing rent levels, student accommodation and registered nursing homes; these are, therefore, also excluded from the rent influencing regime.
- 3.5 If an HA owns general needs housing stock which is managed by another organisation under a management agreement, responsibility for compliance and for provision of data remains with the owning HA. This applies regardless of whether the managing organisation is an HA.
- 3.6 If there is a lease of 21 years or more to a managing organisation which is an HA, then the lessee HA is responsible for compliance and the provision of data to the Housing Corporation. Where there are lease arrangements, of whatever term, between HAs in a group structure, then the group should decide which member is responsible for compliance and provision of data.

4 RENT INFLUENCING FROM 1 APRIL 2002

- 4.1 The housing policy statement sets out the objectives for social rent setting and the *Guide to social rent reforms*, published by the DTLR, gives details of the framework for restructuring rents. The underlying principles for implementation of the policy are:
- rents to reflect more closely the size, condition and location of properties, and local earnings;
 - a target rent to be calculated for each property;
 - a 10-year implementation period, from 1 April 2002, to complete the restructuring of rents;
 - at the end of year 10, rents on individual properties normally to be within a band between 5% higher and 5% lower than the target rent; and
 - landlords to have discretion over the pace and timing of restructuring programmes but to change individual rents by no more than £2 a week, in addition to the guideline limit — i.e. RPI+0.5% plus or minus £2, in any year.
- 4.2 The statement also said that the guideline limit for HA rent increases will be 0.5% a year in real terms from 2002/2003 onwards. Service charges are subject to cost recovery and thus not formally part of this regime. However, we expect increases for Housing Benefit eligible service charges to be within the guideline limit. Service charges for support services that are eligible for Transitional Housing Benefit, and from April 2003 Supporting People Grant, will be outside the scope of this requirement.
- 4.3 If an HA proposes to provide additional Housing Benefit eligible services, leading to a significant increase in the level of charges, we expect the HA to discuss this with the relevant local authority.
- 4.4 The 5% flexibility above or below individual target rents will apply throughout the implementation period.
- 4.5 In establishing the guideline limit for increases, HAs should use the inflation figure including mortgage payments, commonly known as 'all items inflation' or RPI, for the September before the year of assessment — e.g. the September 2001 RPI figure (published in October 2001) for the financial year 2002/03. We will issue a Circular each year to confirm the guideline limit.
- 4.6 Over the 10-year implementation period, target rents will increase by RPI+0.5% a year. Increases or decreases in actual rents charged during that period are limited to £2 a week in addition to the guideline limit for increases, i.e. RPI+0.5% plus or minus £2.
- 4.7 Our rent influencing regime will continue to bear down on rent increases by applying the guideline limit. We will assess compliance with the rent restructuring framework to ensure that rent levels are adjusted or maintained as appropriate, looking at the difference between actual rents and target rents and the remaining time until the end of the implementation period. We will also evaluate outlying HA target rents (i.e. target

rents that are significantly higher than the local authority average for each property size). HAs that are furthest from the average may be targeted for investigation.

- 4.8 Calculation of a 'rent envelope', which is part of our current assessment of compliance on rents, will not be appropriate when the rent restructuring framework is introduced on 1 April 2002. Individual target rents should only increase by the guideline limit; actual rents will move towards convergence with target rents over the implementation period, so actual rents may increase by more than the guideline limit of RPI+0.5% until the target rent is reached, subject to the £2 a week limit.
- 4.9 While the rent restructuring framework aims to maintain the total rental income for the HA sector as a whole, some redistribution will take place so that properties in higher capital value and higher earnings areas will have higher rents, and those elsewhere lower rents.
- 4.10 All HAs are expected to comply with the rent restructuring framework, irrespective of size or of whether their rents will need to increase or decrease to achieve compliance. In planning to implement rent restructuring, HAs should examine the implications for their stock as a whole in preparing their rent and business plans.
- 4.11 HAs should move to compliance with the new framework at a pace appropriate to their current circumstances. This may mean that an HA does not make 10 equal adjustments to rents over the 10-year period. However, we do not expect HAs to concentrate changes in the later years of the implementation period.
- 4.12 We will expect HAs to produce an annual rent plan that demonstrates how they propose to manage the transition over the 10-year implementation period. We may wish to review an HA's rent plan as part of the lead regulation process or a rent investigation but we will not routinely collect or review plans every year for each HA. We will seek confirmation of an HA's progress with its rent plan as part of the lead regulation process.
- 4.13 We will collect information which allows us to identify HAs that are not setting appropriate target rents and HAs that are not moving towards target rents or will fail to reach target rents within the 10-year implementation period. But we expect HAs that are having difficulty in conforming to the requirements of the framework to contact their lead regulator before the start of the rent restructuring process; and those that encounter difficulties thereafter to let us know.
- 4.14 In the RSR we will continue to collect information on average rents and eligible service charges by property size by LA and will also collect the average target rents for each property size for each LA. Appendix B shows the relevant page in the RSR and highlights the extra information to be collected. We will keep under review our information requirements so that we can ensure we receive appropriate and adequate data to carry out our initial compliance assessment.
- 4.15 HAs will be asked to certify that they comply with the rent influencing regime as set out in this guidance, or any agreement between them and the Corporation.

5 CALCULATION OF TARGET RENTS

- 5.1 This section provides guidance on the calculation of a target rent. It also deals with specific implementation issues for various categories of housing.
- 5.2 HAs will need to derive a target rent for each property. The DTLR's *Guide to social rent reforms* sets out the basis for the calculation of target rents. This states 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.

- 5.3 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 HA sector multiplied by relative county earnings multiplied by bedroom weight
plus
30% of the average rent for the HA sector multiplied by relative property value

- 5.4 Ministers recognise that there are potential problems associated with the small number of existing properties that would have very high rents under the reforms and are currently considering proposals for tackling these.
- 5.5 Appendix C gives the relevant data on the national average HA rent, bedroom weightings, earnings data and property values to be used in the formula. A worked example of the calculation of a target rent is shown in Appendix D.
- 5.6 The table below shows the national average rent for the HA sector for each financial year from 1999/2000 to 2002/03, after applying the guideline limit increase. For the year 2002/03 HAs should use the national average rent of £58.23 when calculating the actual target rents for each of their properties for the first year of the ten year implementation period. This is the national average rent that should be achieved by the end of the 2002/03 financial year.

	1999/2000	2000/2001	2001/2002	2002/2003
RPI	3.2%	1.1%	3.3%	1.7%
Guideline limit	4.2%	2.1%	4.3%	2.2%
National average rent	£53.50*	£54.62	£56.97	£58.23

* This is the national average rent as at 31 March 2000. The table uses the financial year for presentational purposes.

- 5.7 An estimator that enables HAs to calculate target rents is available from the NHF — *Making sense of rents for 2002, CD estimator*. The valuation data in the 'estimator' is

adequate for initial modelling purposes, however, to calculate actual target rents for a rent plan, precise valuation data should be input.

- 5.8 The formula for setting target rents outlined in the *Guide to social rent reforms* includes weightings that differentiate between properties with more or less bedrooms, so that — other things being equal — a property with more bedrooms has a higher rent. Differences in the valuation of individual properties in the same category, such as 3-bedroom homes, should reflect their differences and can be widened further by applying the plus or minus 5% flexibility.
- 5.9 The earnings data given in the *Guide to social rent reforms* was derived by the DTLR from the New Earnings Survey (Office for National Statistics). The figures represent the average gross weekly earnings of full-time male and female manual workers from 1997 to 1999, uprated to 1999 prices. This (the earnings data) roughly coincides with the valuation base date (see Section 6).
- 5.10 The 'bedroom weight' used in calculating the rent of each unit should be based on the number of rooms available for the tenant's exclusive use. For instance, where the tenant has exclusive use of only one room, the weight corresponding to bedsits should be used.

Supported housing

- 5.11 Section 1.9 of this guide referred to work on exploring the detailed issues arising in implementing rent restructuring for supported housing. In the light of the work of this group, the Government has confirmed that the same principles and overall approach to rent restructuring should be applied to supported housing as to other types of social housing. This section sets out specific points on supported housing.
- 5.12 While HAs should ideally start restructuring rents for supported housing from April 2002, we recognise that some may wish to synchronise this work with the transition to Supporting People. We will allow HAs the discretion to delay applying the rent restructuring framework to supported housing by one year. From April 2003 we expect all HAs to begin restructuring the rents of their existing supported housing stock by using the same formula as that for general needs housing; and to plan to complete restructuring for supported housing by March 2013, giving a full 10 years in which to complete restructuring. However, the guideline limit of RPI+0.5% applies from April 2002. Any amounts collected by HAs from their tenants to pay Council Tax (e.g. in shared housing) should be excluded before applying the rent restructuring framework.
- 5.13 Accommodation related service charges for supported housing, like service charges for other stock, are not part of the rent regime. But we expect any increases to be within the guideline limit of RPI+0.5%, except where rises are attributable to Supporting People changes in 2002/03. Service charges for support services that are eligible for Transitional Housing Benefit and, from April 2003, Supporting Grant, will be outside the scope of this requirement.
- 5.14 In planning to implement rent restructuring, HAs should examine the implications for their stock as a whole in preparing their rent and business plans.

- 5.15 We acknowledge that the provision of supported housing (even after separating out all support costs) gives rise to particular financial issues beyond those associated with general needs housing. In recognition of this, a supported housing allowance is being introduced of an additional 5% flexibility to set rents higher or lower than target rents, giving 10% flexibility in total, rather than the 5% for other social housing. This applies to all supported housing and sheltered housing where the residents of the property may attract Supported People Grant.
- 5.16 The DTLR has recognised that in some cases valuations of property on an EUV basis will not take account of the particular qualities and characteristics of supported housing. Where the Board of an HA decides this is the case, with the benefit of professional advice where appropriate, the HA may value properties on a Depreciated Cost Replacement (DCR) basis. Guidance on this approach to valuation will be issued soon.
- 5.17 We recognise that the cost of providing the housing element of supported housing can be higher than for other social housing. In planning how to implement rent restructuring, HAs will need to identify arrangements for covering any such costs. We expect HAs to consider the following when setting their rent plans:

The split between rents and service charges for support:

All costs that can be characterised as support costs should be covered by service charges for support. For example, we would expect the following activities to be classified as support costs:

- work associated with allocating and letting supported housing relating to considering individuals' support needs;
- establishing whether the support service and the way it is provided matches individuals' needs and preference;
- providing individuals with advice and support to help them take decisions about their accommodation;
- assisting individuals in claiming Housing Benefit;
- other activities that can be identified as or to be related to the provision of support rather than housing management.

The split between rents and accommodation-related service charges:

Where providing supported housing involves delivering additional accommodation-related services, HAs should consider how far it may be appropriate to cover such costs through non-support service charges. Examples of costs that could, potentially, be covered by service charges include:

- communal provision of laundry and cooking equipment servicing and replacement;
- lift servicing and replacement;
- boiler replacement and servicing;
- maintenance of common parts and communal areas;
- fire equipment servicing;

- Health and Safety checks;
- grounds maintenance; and
- furniture replacement.

- 5.18 Some HAs providing supported housing have existing stock developed with high levels of private finance, in partnership with local or health authorities. HAs should apply the rent restructuring framework, but we recognise that they may require an extension to the implementation period. If HAs cannot meet the requirements of the rent restructuring framework, they should discuss this with their lead regulator. Section 7.9 of this guidance confirms that HAs existing statutory and contractual obligations are overriding, and that in assessing compliance we will take into account the need to service existing loans. Market-vented schemes, which are let to those able to pay the rents from their own resources, are exempted from rent restructuring in the same way as for general needs stock.
- 5.19 For the future, the intention is that HAs should plan the financing of new schemes in the light of the rent restructuring policy, and we, with DTLR, are reviewing the capital finance regime for supported housing to ensure that it continues to enable HAs to develop new schemes at the rent levels required under rent restructuring.

Low cost home ownership (LCHO)

- 5.20 Rent restructuring will not apply to LCHO properties (the term LCHO is taken to include shared ownership). Rises in rents should be limited to the guideline limit of RPI+0.5% or in accordance with the lease. However, because of legislative differences, this limit does not apply to service charges of LCHO properties.

Fair rents

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

Relets and new lettings

- 5.22 HAs have discretion over whether to use relets as a means of moving more quickly towards target rents, or whether to keep the rents for relets in line with their general progress towards target rents for comparable properties. HAs will be expected to apply the £2 a week limit, in addition to the guideline limit of RPI+0.5%, to whatever starting rent they set for a new tenant.
- 5.23 Newly provided housing approved for funding through Social Housing Grant (SHG) or other public funding sources, from 2002/03 onwards will have rents that are in line

with an HA's existing rents for comparable properties, with the rent phased to achieve the target rent by the end of the implementation period.

- 5.24 If an HA has newly provided housing which has been approved for funding **before** 2002/03 but which will be completed after the introduction of rent restructuring in April 2002, we expect the HA to comply with the Funding Contract. Any change necessary to achieve target rents should be phased over the implementation period. If an HA proposes to charge a rent at first letting that differs from the one in our SHG approval, then the HA must discuss this with its usual Investment contact in our field office.

Improvements

- 5.25 If an HA undertakes improvements and wishes to reflect this in the rent, it can do so if a new valuation confirms that the capital value of the property has increased as a result. This should be on a January 1999 valuation base (see section 6). However, it may need to review the phasing of any change to the existing rent to achieve the revised target rent during the remainder of the implementation period.
- 5.26 We propose that the new Regulatory Code will require HAs to manage decent, good quality homes, which are maintained in a lettable condition. If they are unable to do so without increasing rents above the guideline limit of RPI+0.5%, then we would expect to discuss with the HA the details of the repair programme. We would want to see that the programme was properly costed on the basis of a reliable stock condition survey and that the HA was making every effort to balance the costs of stock reinvestment with the need to contain rent increases — for example, considering the possible consequences of phasing the programme; and the standard to which repair work is to be carried out.
- 5.27 If the necessary works cannot be carried out without breaking existing financial commitments, then we would expect to agree a programme of works with the HA, that may involve an increase above the guideline limit of RPI+0.5% or an extension of the implementation period for rent restructuring. However, in such instances, we would need to be satisfied that this was not used as a device to circumvent the policy. In this respect, we would want to discuss with the HA its previous stock reinvestment policy and the reason underlying it.

Housing transferred by a local authority to an HA before 1 April 2001

- 5.28 Past agreements governing the stock transfer programme, including those transferred as part of the 2000 programme, have invariably provided guarantees to tenants that their rents will not increase by more than a set amount for a certain period, typically RPI+1% for 5 years. These, or other commitments agreed in consultation documents, should stand.
- 5.29 LSVT HAs will not, therefore, be expected to implement rent restructuring until the end of the rent guarantee period. They should, however, then aim to achieve target rent

levels by the end of the implementation period in March 2012. We recognise that some of these HAs may require an extended implementation period to achieve target rents.

- 5.30 Equally, HAs should honour commitments to lenders that may also depend on the HA charging a particular pattern or level of rents. In some cases we may agree that an HA cannot revise its business plan without unacceptable consequences; but where HAs have scope to make progress on rent restructuring, while still meeting their obligations to tenants and lenders, we will expect them to do so. We will take account of the business needs of the HA at the time of a review but where there is any leeway, we expect the first priority to be compliance with the rent influencing regime.

Housing transferred by a local authority to an HA after 1 April 2001

- 5.31 We expect any stock due to be transferred in 2001 or later to achieve rent restructuring by March 2012, the same timetable as for other social housing stock.
- 5.32 Rents should reach the target rent by the end of the implementation period. HAs will have discretion on the precise timing of the changes for existing tenants within the implementation period but will be expected to follow the basic pattern in this framework ensuring that no individual rent changes by more than £2 a week in any year, in addition to the guideline limit for increases. There may, however, be additional rent for improvements agreed by tenants.
- 5.33 There is discretion over whether to use relets as a means of moving more quickly towards target rents, or whether to keep the rents for relets in line with the general progress towards target rents for comparable properties.
- 5.34 We will, therefore, expect stock transfer applicants to state clearly the basis on which target rents are set. This will be important in any assessment of the business plan. If the target rents reflect the unimproved value of the stock rather than the improved value, it may be that as improvements are completed capital values will need to be reassessed and target rents adjusted in light of revised capital values. Any reassessment of capital values should be based on January 1999 values. By March 2012 target rents should, therefore, reflect improvement works that affect the capital value.

Transferred stock funded by the Estate Renewal Challenge Fund (ERCF)

- 5.35 In ERCF-funded transfers, the transfer valuation in each case includes rates of rent increases that are tailored to the particular case, differ year on year, and are rarely if ever RPI+0.5%. In these cases, as part of the delivery plan agreed between us and the HA, an individually tailored maximum rent envelope for each year is agreed as an investment contract. We will monitor such transfers against this agreement, rather than the guideline limit. If the transferred stock were absorbed into an existing HA, and caused that HA's overall rate of increase to exceed the guideline limit, and if that were the only reason why the HA failed to comply, then we would not take regulatory action. As with LSVTs, when an ERCF HA has scope to make progress on rent restructuring, while still meeting obligations to tenants and lenders, we will expect it to do so.

6 PROPERTY VALUATIONS

- 6.1 This section provides guidance on the basis for property valuations.
- 6.2 While a target rent will be required for each property it is neither practicable nor desirable to value each property individually. As relative property values play a modest role in the restructuring formula, small differences in individual valuations will not have a large impact on target rents. However, for the purposes of calculating target rents, a value will have to be attributed to each property.
- 6.3 We will not be prescriptive about the method by which an HA establishes its property values, given the broad range of HAs by size and the geographical spread of their stock. However, Boards must satisfy themselves that they are adopting the most appropriate procedure for valuing their stock, with the benefit of professional advice, where necessary.
- 6.4 To achieve a consistent and fair pattern of social rents, a common date of valuation and basis of valuation must be adopted. The DTLR has determined that January 1999 should be used as the property valuation base for calculating restructured rents.
- 6.5 As one of the objectives of rent restructuring is to achieve convergence of average rents in the LA and HA sectors, both sectors must use the same type of valuation. HAs should use an Existing Use Valuation (EUV), assuming vacant possession and continued residential use. EUV's should be produced by the comparative method and not by a discounted cash flow method. Appendix F sets out the definition by the Royal Institution of Chartered Surveyors (RICS) of the concept of EUV. HAs should note that this is not the same basis as Existing Use Value—Social Housing (EUV—SH), which adjusts the valuation to take account of the social housing tenancy and is also different from an Open Market Valuation (OMV) which can include the benefit of a planning gain.
- 6.6 Valuations should be in accordance with the RICS Appraisal and Valuation Manual and may be desk-based. HAs may choose to use external valuers or appropriately qualified in-house staff to carry out valuations, and they must keep written confirmation of the valuations. Several options, which may be used in combination, for valuing housing stock are suggested in the following sections.
- 6.7 HAs may wish to consider adopting the beacon approach detailed in *A new financial framework for local authority housing — guidance on stock valuation* (a copy is available from the DTLR website www.dtlr.gov.uk). This approach should provide an accurate assessment of the Existing Use Value.
- 6.8 It is difficult to predict how many individual valuations an HA will need to cover its entire stock. Much will depend on the variety within their stock and its geographical coverage. HAs should determine the appropriate number of valuations required for their stock to take account of their individual circumstances. As an indication, work

undertaken for the DTLR as part of a rents pilot study suggested that landlords may need to value 2–5% of their stock.

- 6.9 HAs that have had stock transfer valuations or EUV—SH valuations, may have also been provided with EUVs or the valuer may hold such information but not have reported it to them. HAs may wish to ask the valuer whether it is possible to adjust the valuation to take account of the valuation base of January 1999.
- 6.10 If an HA has had a representative proportion of its stock valued for loan security purposes, it will probably have been provided with an EUV. If so, the valuers may be able to extrapolate this information across the whole of the HA's stock and re-base it to January 1999 if necessary. Again, HAs may wish to discuss with the valuer whether this is feasible.
- 6.11 HAs operating in the same area may wish to form 'valuation clubs' and jointly instruct a valuer to carry out a series of valuations based on property type and location which are shared among the members of the valuation club. The NHF can provide information on forming a valuation club and details of some of those already in operation.
- 6.12 HAs may use right-to-buy valuations, where available and appropriate, adjusted to the valuation base date.
- 6.13 If existing valuations need to be re-based to January 1999, this can be done by reference to an appropriate house price index, e.g. the Nationwide Building Society or Halifax plc published indices, or by reference to the data available from the Land Registry website, by an external valuer or appropriately qualified in-house staff.
- 6.14 If a property is subject to a s106 Agreement (Town & Country Planning Act), this should be disregarded for the purposes of attributing a value to the property for rent restructuring purposes. Similarly, if a building is listed under the Planning (Listed Buildings & Conservation Areas) Act 1990, this should be disregarded. If a property has a relatively short lease that affects its value, the valuation should be on the assumption that the property has a long leasehold interest, to avoid anomalies.
- 6.15 Where possible, HAs should obtain EUVs for supported housing properties. However, we recognise that in some instances it may be difficult to establish reliable EUVs for more specialised properties such as hostels, which may rarely be sold on the open market for their existing use. Further guidance on valuation issues for supported housing will be given in separate guidance to be issued soon.
- 6.16 On new SHG-funded developments, target rents will be phased in line with an HAs existing stock. When submitting a bid for an allocation of SHG, HAs should calculate target rents based on valuations they have obtained for the scheme or, if these are not available, based on valuations for comparable properties in their existing stock.

7 OUR APPROACH TO ASSESSING COMPLIANCE BY HOUSING ASSOCIATIONS

- 7.1 The Board of an HA should satisfy itself that it is complying with the rent influencing regime and our requirements in the Regulatory Code for rent increases and rent levels.
- 7.2 In terms of collecting data from HAs, which will be the starting point for our compliance assessment, we will:
- collect data on past rent increases and rent levels via the RSR. In the coming year we will compare information at 31 March 2002 against equivalent information at 31 March 2001;
 - collect data on future forecast rates of increase via the Five Year Financial Forecast (FV5);
 - from the year ending 31 March 2002, collect extra data on average weekly net target rents.

The historic data will give us a clear basis for considering the HA's past approach to setting rents as well as its actual performance in setting rents and rent increases. The data will enable us to see the HA's future approach and whether it is likely to comply with the rent influencing regime.

- 7.3 We will assess compliance firstly by comparing average weekly rents charged to average weekly target rents, for each property type and each local authority area. We will use this assessment to prioritise any further investigations we may need to make.

Rent policy and plan

- 7.4 We expect HAs to adopt a rent policy which sets out the broad parameters for setting rents and any other key policy issues, as well as stating how the policy links to our rent influencing regime.
- 7.5 We also expect HAs to produce a rent plan, as an integral part of their business planning process, which demonstrates how they will achieve rent restructuring over the implementation period. We expect HAs to review their rent plan each year. Examples of how individual rents may change over the implementation period are shown in Appendix E.
- 7.6 We expect HAs to have completed their rent policies and plans by April 2002 at the latest. If an HA is unable to achieve this timetable, or realises as its rent plan takes shape that it may be unable to comply with the rent influencing regime, it should contact its lead regulator. If possible this should be by 31 December 2001. Lead regulators will check on progress in the course of any routine visits.
- 7.7 Appendix G gives guidance on what we expect an HA's rent policy and plan to include.
- 7.8 To comply with good practice principles and our Regulatory Code, we expect each HA

to give all its tenants information about its rent policy and plan, together with rent levels across the HA's stock and in the relevant local authority area. Further guidance on this will be available from the NHF soon. We expect any complaints by tenants on individual target rents to be dealt with through an HA's usual complaints procedure.

- 7.9 In assessing whether an HA meets the requirements of the rent restructuring framework and our Regulatory Code, we will take account of its existing financial needs and commitments. The HA's existing statutory and contractual obligations are overriding. We will take into account:
- the need to service existing loans;
 - contractual stock improvement and refurbishment commitments;
 - the need to continue to maintain stock in order to comply with regulatory, statutory and other contractual obligations;
 - the availability of appropriate revenue funding for supported housing.
- 7.10 There can be significant variations between individual HAs in their operating and financial circumstances, for example in:
- stock improvement and major repairs investment;
 - the geographical areas in which they work;
 - the policies adopted by management;
 - their loan portfolios;
 - competitive behaviour for new development;
 - local demand issues.

We will, therefore, investigate closely whether an HA that states it cannot operate within our rent influencing regime has taken all possible steps to achieve compliance. This would include efficiency gains and examination of development programmes as well as consideration of entering into a group structure or merger.

- 7.11 HAs should discuss with their lead regulator any stock where they believe that the application of rent restructuring will directly lead to demand problems.
- 7.12 We are also aware that HAs and lenders have entered into contractual loan agreements before the introduction of a guideline limit for increases and the rent restructuring framework. With this in mind, and as a general principle, we will assess compliance in the light of the following hierarchy:
- a) legislative and contractual obligations,
 - b) governing instrument requirements,
 - c) regulatory requirements.
- 7.13 As well as considering an HA's contractual obligations to lenders, we have also said we intend to take into account materiality and individual circumstances as guiding principles when making any judgements about compliance by individual HAs. In deciding whether to take any action against an HA, our paramount concern will be to

protect the public and private investment in its stock and to retain the confidence of lenders.

- 7.14 In an insolvency situation, if the Corporation could not arrange for the transfer of stock to another HA, neither the mortgagee in possession, nor the receiver, nor the landlord to whom the stock is sold will be bound by the rent influencing regime.
- 7.15 If the stock is sold to another HA, the Corporation will discuss with the HA how far it is able to comply with the Regulatory Code.

8 THE INVESTIGATION PROCESS

- 8.1 We expect to carry out a rent investigation if an HA approaches us because it believes it is unable to comply with the rent influencing regime, or where our own compliance assessment indicates that an HA is unable to comply. In carrying out a rent investigation, we will review an HA's existing rent policy and annual rent plan.
- 8.2 We will also consider what action, if any, the HA is proposing to take to achieve compliance with the rent influencing regime, in particular:
- is a plan in place to comply with the rent influencing regime? Is it prudent, taking account of existing commitments to lenders and tenants?
 - what is the time frame for any proposed action?
 - does the action bring the HA's average rent in line with the average target rent for its whole housing stock and limit future increases to the guideline limit?
- 8.3 We acknowledge that it is imperative for HAs to meet existing loan covenants. We will want to see evidence that the HA has taken all reasonable steps to minimise the rent increase if it cannot comply with the guideline limit, which is consistent with covenant compliance. We will also want to make sure that it has made plans to achieve the guideline limit for rent increases within a reasonable time frame. Similarly, we will want to see that the HA has taken all reasonable steps to achieve compliance with rent restructuring during the implementation period where rent reductions are required, while ensuring that it maintains compliance with its existing loan covenants.
- 8.4 If an HA expects to breach the guideline limit, we will carry out a rent investigation before agreeing to the breach. As planning assumptions can change for various reasons, we will expect to periodically review the position, to determine whether the higher rate of increase is still necessary in light of the HA's financial position at that time. Any agreement will, therefore, be subject to periodic review rather than being time limited.
- 8.5 Similarly, if an HA believes it cannot reasonably achieve the target rents over the 10-year implementation period, it should contact its lead regulator. If possible this should be by 31 December 2001. We will carry out a rent investigation and, where appropriate, agree to extend the implementation period to the date it expects to comply. We will review the position periodically, particularly if circumstances change, taking careful consideration of existing commitments, including those to existing lenders.
- 8.6 If applying the maximum change of £2 a week over the full 10-year implementation period does not bring the rent charged into line with the target rent, HAs should continue to apply RPI+0.5% plus or minus £2 a week until the target rent is achieved. In these circumstances, our agreement will not be necessary and an HA should identify within its rent plan those properties where this applies.
- 8.7 Any other proposed pattern of change, which should be set out in the rent plan, will be

discussed through our lead regulation process. If necessary, we will carry out a rent investigation.

- 8.8 If we agree to an HA breaching the rent influencing regime, we will include this information in their PAIS document.
- 8.9 After investigation, if we are not satisfied that the HA has an acceptable reason for breaching the guideline limit or failing to achieve rent restructuring, we may place the HA in supervision, depending on the seriousness of this and any other breaches of the Regulatory Code. Appropriate regulatory action may follow.
- 8.10 If an HA is made a supervision case, we will expect it to notify its stakeholders of our action in accordance with the protocol set out in *Publicity for supervision cases*. In cases of serious concern where the HA is unable or unwilling to deal with its failure to comply with the rent influencing regime, all grant confirmations, as well as revenue funding if it is at risk, may be suspended. This would normally be accompanied by the use of other statutory powers, such as appointments to an HA's board.
- 8.11 In cases of serious concern, the Corporation will liaise with the HA, lenders and other stakeholders in agreeing appropriate action to deal with a breach of our rent influencing regime.

9 THREE-YEAR PROGRESS REVIEW

- 9.1 The Minister has announced a three-year review by the DTLR and we will participate in this. The review will consider whether RPI+0.5% continues to be an appropriate rate of increase for the guideline limit, the progress made in implementing rent restructuring and whether there should be any refinement to the details of the policy.
- 9.2 As part of our own review, we will look particularly at movements in HAs costs, taking into account the efficiency gains which adoption of Best Value should deliver and the implications for the policy on rent increases. Our focus will be on assessing the financial impact on the sector, and how far the sector has been able to accommodate the policy change in the first three years.
- 9.3 We are particularly keen to learn from the experience of the utility regulators who carry out regular price reviews. To this end we are carrying out research with the Chartered Institute of Housing which will be published in due course.

10 QUESTIONS AND ANSWERS

1 How will the rent calculation work?

An illustration of the calculation that HAs should undertake to determine the target rent for each property that they own is in Appendix D.

2 My HA has less than 250 units. Does the rent influencing regime apply to me?

Yes. All HAs are expected to comply with the rent restructuring framework and the guideline limit for increases. However, we will concentrate our regulatory resources on those with more than 250 units.

3 What period should my rent plan cover?

All HAs rent plans should include a forecast of how they intend to move their rents to target rents over the full 10-year implementation period. However, if an HA is unable to achieve the target rents by 2011/2012, within the constraints of changes of a maximum of £2 a week, the plan should extend to the year that convergence is achieved. If an HA achieves compliance before 10 years, the plan need only cover the period up to compliance.

4 What type of valuation should be used to calculate a target rent?

Existing Use Value (EUV) assuming vacant possession and continued residential use. Although similar to an Open Market Value (OMV) it excludes, for example, any potential planning gain that could be reflected in an OMV.

5 How can I reflect in the target rent different sizes of property with the same number of bedrooms?

All things being equal, the valuations of the properties should reflect this and will affect the target rent calculation. An HA can also differentiate further by applying the plus or minus 5% flexibility allowed.

6 Do I have complete discretion over the timing of changes to existing rents in order to achieve compliance by the end of the implementation period?

We expect all HAs to act responsibly in determining how any changes are phased over the 10-year implementation period, particularly as circumstances can change over that period. Therefore we do not expect HAs to concentrate changes in the later years of the implementation period, however, we will treat each case on its merits.

7 Can I change the proposed phasing of rent increases or decreases after the start of rent restructuring in 2002/03?

Yes. We recognise that HAs operate in a dynamic environment and that circumstances can change over time. As long as restructuring is completed by March 2012 and rents do not change by more than £2 a week, in addition to the guideline limit of RPI+0.5%, HAs will have the flexibility to review and adapt their rent plans each year.

8 Once my HA achieves target rents, if it delivers increases below RPI+0.5% one year, can I go above the guideline limit the following year, i.e., can I carry forward any 'savings'?

Yes. As target rents will increase by RPI+0.5% each year, an HA can carry forward 'savings' but future increases must still be contained within the maximum change of £2 a week, i.e. a maximum increase in any year of RPI+0.5% plus £2.

9 Can I make an additional rent charge where improvements are carried out?

If an HA undertakes improvements that increases the capital value of the property, as at the valuation base date of January 1999, then it may increase the target rent. The HA may need to review the phasing of any change to the existing rent to achieve the target rent during the remainder of the implementation period.

10 Property values have increased generally since January 1999. Can I reflect this in calculating target rents?

No. The only circumstances in which property valuations can be reviewed are when works have been done to significantly change the physical condition or structure of a property. In these circumstances, a new valuation can be carried out. This should be on a January 1999 valuation base.

11 Does the guideline limit for increases apply to service charges?

Service charges are not part of the rent restructuring framework. But we expect HAs to contain increases to housing benefit eligible service charges to within the guideline limit for increases, except for those covering support costs for supported housing.

12 If my HA provides social housing without any recourse to public subsidy, e.g. by using our own reserves/surpluses, is this outside the Corporation's rent restructuring framework?

No, unless it falls within one of the categories of social housing that have been specifically excluded from the framework. However, the guideline limit for increases applies to all social housing. Our description of social housing is set out in Appendix A.

13 My HA's shared ownership leases specify a particular level of rent increase. Am I obliged to charge this level even if by doing so my HA would breach the guideline limit for increases?

HAs must take their own legal advice as to whether they can vary the level of rent increase from that in the shared ownership lease. If they are able to, they should comply with our guideline limit.

14 Performance Standard D sets out the requirements for information to be provided to tenants. How will these proposals affect that?

We are considering this as part of our review of Performance Standards and the proposed introduction of a Regulatory Code. We are working with the NHF to produce appropriate good practice guidance in this area.

15 Is a scheme with SRB funding subject to the rent influencing regime as it has some public subsidy?

If the scheme provides mainstream social rented housing, then it is covered by the rent influencing regime. If the housing provided falls within one of the categories of excluded social housing, only the guideline limit for increases applies.

11 GLOSSARY

Funding conditions	The conditions which must be complied with to receive an allocation or payment of Social Housing Grant (SHG).
Guideline limit	The annual increase in target rents. From 2002/03 onwards this will be RPI+0.5%.
Implementation period	The 10-year period from 1 April 2002 to 31 March 2012 during which rent restructuring should be completed.
Regulatory Code	Our framework for the regulation of HAs.
Lettable condition	This term covers a series of standards relating to the physical condition and layout of a home. A fuller description is found in our Scheme Development Standards published in August 2000. We will revise this description in the light of <i>The way forward for housing</i> , the DTLR's document explaining how they are taking forward the proposals in the Green Paper <i>Quality and choice: a decent home for all</i> .
Regulatory and Statistical Return (RSR)	The annual collection of regulatory and statistical information from housing associations (HAs).
Rent influencing regime	The process by which we seek to bear down on rent increases through the issue of a guideline limit for rent increases, and influence rent levels through the rent restructuring framework.
Rent plan	The document that HAs are expected to produce to demonstrate how they will achieve rent restructuring over the 10-year implementation period.
Rent restructuring framework	The framework to meet the Government's objectives for social rent setting based on relative property values, local earnings levels and property size.
Social housing	The phrase social housing includes 'homes for letting or low cost home ownership and associated amenities and services, for people whose personal circumstances make it difficult for them to meet their housing needs in the open market'. A more detailed description is included within our policy document <i>Regulating a diverse sector</i> , which we are currently reviewing.
Supported housing allowance	The additional 5% flexibility, to set rents higher or lower than target rents for all supported housing and sheltered housing where the residents of the property may attract Supported People Grant.
Supporting People	A government initiative to promote flexible services that are cost effective and reliable for vulnerable people. Local authorities will be responsible for commissioning/contracting, monitoring/reviewing services and for paying providers.
Target rent	The rent derived by applying the formula set out in paragraph 5.3.

APPENDIX A: DESCRIPTION OF SOCIAL HOUSING

1 We use as our description of social housing:

'homes for letting or low cost home ownership and associated amenities and services, for people whose personal circumstances make it difficult for them to meet their housing needs in the open market'.

2 Any description of social housing is open to interpretation. However, we consider that our description includes the following types of activity and funding sources:

- housing (including supported housing) covered by the Social Housing Standard;
- temporary social housing/short-life leasing schemes for homeless families and similar activities which aim to tackle homelessness;
- Private Finance Initiative (PFI) schemes (providing they involve the ownership or management of social housing);
- management contracts of publicly owned housing for rent (including local authorities, Housing Action Trusts, government departments and other HAs);
- asylum seeker Home Office contracted accommodation;
- refurbishment or property maintenance companies, **providing** the bulk of the company's work is concerned with social housing;
- community regeneration initiatives (defined as those activities eligible for funding under Section 126 of the Housing Grants, Construction and Regeneration Act 1996);
- care and repair contracts;
- residential care homes (registered under Part I of the 1984 Registered Homes Act);
- domiciliary and social care services (includes the provision of services to non-HA residents as long as some HA residents also benefit);
- shared ownership and low-cost home ownership schemes;
- workers in key public services (for example nurses) (providing that the rent is below that prevailing in the market for similar accommodation, and the HA has the power to control the letting, management and termination of the tenancies).

3 The description excludes:

- market-rented schemes, as these are housing which, by definition, is available on the open market;
- student accommodation, because in many cases it does not represent a permanent or sole home;
- registered nursing homes (unless they are registered under Parts I and II respectively of the 1984 Registered Homes Act), as their primary purpose is arguably health care, not housing.

APPENDIX B: REGULATORY AND STATISTICAL RETURN (RSR) — ADDITIONAL INFORMATION

I1 Please give the total general needs assured and secure stock, owned for each local authority area in which you operate, together with overall average weekly net rents and service charges as at 31st March 2002.

Please calculate each average/weighted average on a snapshot basis at 31st March 2002. Please record the weekly net rent and service charge at 31st March 2002 based on 52 weekly payments per annum. The average weekly net target rent should be as per the DTLR formula.

Local housing authority

LA code

**GENERAL NEEDS
Assured and secure rents
only**
As at 31 March 2002

	TOTAL STOCK	AVERAGE WEEKLY NET RENT	STOCK WITH SERVICE CHARGES ELIGIBLE FOR HOUSING BENEFIT	AVERAGE SERVICE CHARGE ELIGIBLE FOR HOUSING BENEFIT	STOCK WITH SERVICE CHARGES NOT ELIGIBLE FOR HOUSING BENEFIT	AVERAGE SERVICE CHARGE NOT ELIGIBLE FOR HOUSING BENEFIT	AVERAGE WEEKLY NET TARGET RENT
	Column 1	£ Column 2 ^p	Column 3	£ Column 4 ^p	Column 5	£ Column 6 ^p	£ Column 7*
1 Bedsit							
2 One bedroom							
3 Two bedrooms							
4 Three bedrooms							
5 Four or more							
6 TOTAL WEIGHTED AVERAGE	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
7 Warden/staff unit	<input type="text"/>						

* Column 7 shows the additional information we will collect.

APPENDIX C: DATA FOR CALCULATING TARGET RENTS

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

Rents

The national average rent, net of service charges, as at 31 March 2000 is estimated by DTLR to be:

HA sector: £53.50 per week

For HAs, increases in guideline limits above the general rate of inflation (RPI) are expected to be no greater than the following figures:

2001–02:	1.0 %
2002–03:	0.5%
2003–04:	0.5%
2004–05:	0.5%

Earnings

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

These figures are derived by DTLR 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. Pre-1996 counties are used, because of the problems of small sample sizes for some of the new counties, especially Unitary Authorities.

Bedroom weights

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

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

Individual property values for rent restructuring must be based upon a January 1999 valuation date and an Existing Use Value, assuming continued residential use and vacant possession. Further details are contained in section six of this guide.

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

HA sector: £49,750

This figure is based on a survey by a national firm of locally-based valuers. This represents an Existing Use Value assuming vacant possession and continued residential use.

APPENDIX D: EXAMPLE CALCULATION OF TARGET RENT

- 1 Consider a one-bed HA property in South Yorkshire, for which the landlord estimates the capital value to be £30,000 in January 1999.
- 2 The information needed to apply the rent restructuring formula is set out in Appendix C.

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

* This is the national average rent as at 31 March 2000. The financial year is used for presentational purposes.

- 4 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

- 5 In this example, the initial target rent is £41.54 a week, which increases by the guideline limit each year as follows:

	1999/2000	2000/2001	2001/2002	2002/2003
Guideline limit	4.2%	2.1%	4.3%	2.2%
Target rent	£41.54	£42.41	£44.23	£45.20

- 6 Appendix E gives two examples of how rents can be phased over the 10-year implementation period.

APPENDIX E: EXAMPLES OF PHASING OF CHANGES IN RENTS

The examples shown, which are for individual property's, are illustrative only as HAs have flexibility to determine the pattern of change to achieve target rents, within the maximum change of £2 per week, which is appropriate to their circumstances. They are also allowed a 5% tolerance above or below the target rent. These are just two examples of how rents can be phased.

Note: The national average HA rent is used as the target rent in both examples and they show how it will actually increase by the guideline limit to 2002/03. From 2003/04 the guideline limit is assumed to be 3% and the target and actual rents shown are, therefore assumptions only.

Example 1 — increase in rent

Assumptions	1999/00	2000/01	2001/02	2002/03	2003/12
RPI	3.20%	1.10%	3.30%	1.70%	2.50%
Guideline limit	4.20%	2.10%	4.30%	2.20%	3.00%

Year	1999/00	2000/01	2001/02	2002/03
Target rent — £	53.50	54.62	56.97	58.23
Actual rent before restructuring — £	44.25	45.18	47.12	48.16

Year	2002/03	2003/04	2004/05	2005/06	2006/07
Target rent	58.23	59.97	61.77	63.62	65.53
Actual rent	50.16	53.66	57.27	60.99	64.82

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Target rent	67.50	69.52	71.61	73.76	75.97
Actual rent	67.50	69.52	71.61	73.76	75.97

In this example the HA has chosen to increase the actual rent by £2 each year, after the guideline limit increase of RPI+0.5% is applied, starting in year 1 until convergence with the target rent. In this example convergence occurs in year 6.

Example 2 — decrease in rent

Assumptions	1999/00	2000/01	2001/02	2002/03	2003/12
RPI	3.20%	1.10%	3.30%	1.70%	2.50%
Guideline limit	4.20%	2.10%	4.30%	2.20%	3.00%

Year	1999/00	2000/01	2001/02	2002/03
Target rent — £	53.50	54.62	56.97	58.23
Actual rent before restructuring — £	61.75	63.05	65.76	67.20

Year	2002/03	2003/04	2004/05	2005/06	2006/07
Target rent	58.23	59.97	61.77	63.62	65.53
Actual rent	67.20	68.22	69.27	70.35	71.46

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Target rent	67.50	69.52	71.61	73.76	75.97
Actual rent	72.60	73.78	74.99	76.24	77.53

In this example the HA has chosen to decrease the actual rent by £1 each year, after the guideline limit increase of RPI+0.5% is applied, starting in year 2 and continues until the end of the implementation period in 2011/12. The actual rent comes within the 5% tolerance above the target rent in year 8 and this continues up to the end of the implementation period.

APPENDIX F: EXISTING USE VALUE (EUV)

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Existing Use Value (EUV) as defined in the RICS Appraisal and Valuation Manual at PS 4.3.

Existing Use Value (EUV) — An opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest;
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion;
- f) the property can be used for the foreseeable future only for the existing use; and
- g) that vacant possession is provided on completion of the sale of all parts of the property occupied by the business.

APPENDIX G: RENT POLICIES AND PLANS

- 1 In adopting their rent policy and plan, we will expect HAs to consider the following issues:
 - do their housing activities generate a surplus after paying interest and similar costs?
 - is there a set target level for surpluses from letting activities? Is that level reasonable, given the limitations imposed by the guideline limit and rent restructuring framework?
 - how do they perform against efficiency indicators and how can this be improved?
 - do they undertake peer-group comparisons with other HAs and LAs as well as the private rented sector? If so, which other organisations form the peer group used?
 - how do they treat material accounting items?
 - is the proposed development programme appropriate?
 - have all of the HA's activities been reviewed in the context of Best Value?
 - have other sources of income been identified and reviewed?
 - what is the asset management strategy adopted and its effect on rents?
 - what is the HA's loan portfolio and treasury management strategy?
- 2 We will expect an HA's rent plan to cover:
 - the schedule of target rents;
 - the forecast movement of current rents to target rents over the implementation period;
 - forecast and actual losses or gains arising from application of rent restructuring;
 - assumptions used in the model;
 - the valuation methodology adopted;
 - a report on progress and any proposed amendment to the existing plan;
 - obligations to tenants and lenders;
 - covenant compliance.
- 3 It may also be appropriate for an HA's rent plan to cover some or all of the following, however, this will be at the discretion of the HA:
 - the level of service provided in comparable properties where there are different rent levels;
 - the scope to alter the levels or standards of service;
 - the relationship between capital values and rent levels;
 - how to calculate the costs of particular activities;
 - how the HA's costs and rents compare to other HAs and LAs in the same area;
 - where relevant, the scope to reduce rents through greater efficiency;
 - separate identification of current and future costs;
 - details of the maintenance/improvement programme and whether the level is appropriate;
 - rent arrears recovery, void management and write-off's;

- asset management strategy, including disposals;
 - knowledge of local markets and earnings.
- 4 For HAs in a group structure they may prepare a rent plan for the group as a whole, however, this must include a schedule of target rents and the forecast movement of current rents to target rents over the implementation period for each HA within the group. We expect each HA to be independently viable, however, where a member of the group is unable to comply with the rent restructuring framework, we expect the group to look at the inter-relationship between members and inter-company charges.