Note: ‘housing association’ is used as a generic term for registered social landlords. ‘Corporation’ means Housing Corporation.

**TITLE:** Rent Influencing Regime – supplemental guidance

**SUMMARY:** Issue of Appendix H to our guidance on the Rent Influencing Regime. This is guidance on the rent cap to deal with properties that would have very high rents under the restructuring framework. This circular also clarifies the position on rent increases, the B&ME review and PFI schemes.

**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

**Legislation, Regulation and Policy Requirements**

- Housing Corporation: Rent Influencing Regime – implementing the rent restructuring framework, October 2001
- ODPM: Guide To Social Rent Reforms, March 2001
- Housing Corporation Circular 01/27-Regulation
- Housing Corporation Circular 02/02-Regulation

**Definitions**

N/A
3 Corporation Expectations

Introduction
This supplement covers Appendix H to our guidance: Rent Influencing Regime – implementing the rent restructuring framework, October 2001. It deals with existing properties that would have very high rents under the rent restructuring framework.

Appendix H gives effect to Ministerial decisions on capping high rents. It should be read in conjunction with the existing guidance. It remains a key principle of the policy as a whole, that individual HAs are 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.

Policy on rent increases
Ministers announced their policy on rents caps in an answer to a Parliamentary Question on the 26th November 2001. The answer also confirmed that the policy would start to take effect in April 2002 as planned; and recorded that the reforms should not lead to rents exceeding a maximum £100 a week in 2002-03.

The main guidance establishes that where HAs have existing rents which are below the target rents for their properties, they are encouraged to increase rents but to limit any increases to a maximum of RPI+0.5% plus £2 each year. Some HAs may be in a position where they do not need to put their rents up in order to remain financially viable. In these cases they will not be pressed to do so.

The Board of each HA is responsible for deciding to what extent they are able to comply with the rent restructuring framework, and for ensuring that they have in place a robust business plan, supported by a rent plan, which demonstrates that they are able to meet their commitments to tenants, lenders and other stakeholders, as well as meeting the future repairing obligations on their stock. If an HA chooses not to increase rents in line with the rent restructuring framework, we still expect it to be able to demonstrate that it can meet the Decent Homes standards without recourse to public subsidy.

B&ME review
The DTLR is currently conducting a review of the effect of the rent policy on Black & Minority Ethnic HAs. The outcome of that review may give rise to further guidance.

PFI schemes
Finally, the current guidance (paragraph 3.1) exempts from the rent restructuring framework Private Finance Initiative (PFI) schemes which involve ownership or management of social housing. We have been asked to clarify this. Housing Revenue Account (HRA) PFI schemes are subject to the framework for local authorities (as confirmed in paragraph 3.3 of the guidance). Non-HRA PFI schemes, which are
owned by HAs, are subject to the framework: although in existing cases any contractual undertakings would take precedence.

4 Assessing Compliance
We collect data on existing and target rents in the RSR and will use this as the starting point for our compliance assessment. If an association has identified that it cannot or is unlikely to achieve compliance, we will also review their rent plan.

In assessing whether an HA meets the requirements of the rent restructuring framework and the Regulatory Code, we will take account of the HA's existing statutory and contractual obligations to tenants, lenders and other stakeholders, which are overriding.

5 Enquiries about this circular should be directed to:
All enquiries relating to this circular should be referred to a member of the Financial Policy team:
   Mick Warner – 0161 242 2023
   Tim Jackson - 020 7393 2036
   Gill Rowley – 020 7393 2225
APPENDIX H: RENT CAPS

On the 26th November 2001, the Minister announced a further safeguard for tenants to mitigate the effect of the rent restructuring formula on a small proportion of properties in high value areas. To meet the concerns that have been expressed about high rent levels, the Minister has decided that the reforms should be subject to a maximum rent, known as a rent cap, which will vary by bedroom size. This appendix sets out how we intend to assess whether HAs are making progress in complying with these policy objectives.

The rent caps for 2002/03 (in 2002/03 prices) will be:

<table>
<thead>
<tr>
<th>Number of bedrooms</th>
<th>Rent cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bedsits and one bedroom</td>
<td>£85</td>
</tr>
<tr>
<td>Two bedroom</td>
<td>£90</td>
</tr>
<tr>
<td>Three bedroom</td>
<td>£95</td>
</tr>
<tr>
<td>Four or more bedrooms</td>
<td>£100</td>
</tr>
</tbody>
</table>

The caps will increase each year by RPI + 1%.

The caps will apply to all properties in England that are covered by the social rent reforms, including supported housing. Rent caps will not apply to those types of properties that are excluded from the reforms such as residential care homes, low-cost home ownership and key worker schemes.

Rent caps, like target rents, apply only to the property element of rents. Therefore service charges, or other charges such as council tax, are not included in the cap.

The Ministerial policy is that the reforms should not lead to rents exceeding a maximum of £100 a week in 2002-03 depending upon the level of existing rents (see below). We expect HAs to comply with this in so far as they are able to taking account of their financial commitments. In assessing whether an HA meets the requirements of the rent restructuring framework and the Regulatory Code, we will take account of the HA's existing statutory and contractual obligations to tenants, lenders and other stakeholders, which are overriding.

**Dealing with existing rents which are above the cap levels**

Where an existing rent is above the level of the cap, it should be gradually reduced over the ten-year implementation period, and beyond if necessary, in the same way as if the existing rent is above the target rent level i.e. by increasing the rent by RPI+0.5% less up to £2 each year. This is subject to HAs being able to fully meet their obligations to their tenants, maintain their stock and continue to function as financially viable organisations, including meeting their commitments to lenders.

An HA can move more quickly to rent cap levels, or target rents, where these are lower than the existing rent, at their own discretion and if they are able to continue to meet their commitments.
QUESTIONS AND ANSWERS

My HA is an LSVT still in the five year rent guarantee period, with some existing rents above the cap levels. When do I have to start to apply the caps to rents?
Movement towards the rent cap levels should begin after the rent guarantee period has ended.

Do rent caps apply to ERCF-funded transfers?
When an ERCF HA has scope to make progress on rent restructuring, including applying rent caps, while still meeting obligations to tenants and lenders, we will expect it to do so. As with LSVTs, this should begin after the rent guarantee period has ended.

What about schemes we have just bid for – the grant rate is based on target rents which are higher than the caps?
HAs do not have to resubmit these bids. Any schemes affected by the rent cap which receive an allocation will have their grant recalculated after the allocations have been made so that the effect of the rent cap on target rents is taken into account.

Does this mean the prospective rent (the rent at first letting) has to be set at the level of the rent cap?
Since restructured rents are being phased in on new properties as well as on existing properties, prospective rents should be set in line with those on existing properties and move to target rents (subject to rent caps) in line with their rent plan.

If my HA decides not to increase rents, how will the grant be calculated for future ADP schemes?
This will be covered by future guidance on taking forward the new approach to investment which will be issued in the spring of 2002.