

# SPITALFIELDS HOUSING ASSOCIATION RENT SETTING POLICY

## POLICY STATEMENT

The Association will ensure that rents are reviewed annually at a level that will reflect:

- The Association's continued commitment to provide good quality, affordable housing for people on low incomes.
- The current legislation and guidelines laid down by the Housing Corporation.
- The outcome of any comprehensive review to ensure Best Value is achieved in all aspects of the Association's work.
- The Association's financial needs in order to maintain its stability and viability.

1. Formulate a Rent Plan relating to the Association's Business Plan, to include:

- A programme for achieving rent restructuring in the short, medium and long term (maximum 10 years.)
- A plan for achieving a specified standard of stock condition by 2012.
- Identification of corrective action required and the consequences of those actions.

2. Collate the relevant information for the restructuring of rents.

- Identify local earnings in relation to national earnings.
- Identify the value of the property in relation to the average value of all RSL properties.
- Identify current rents, bedroom numbers, flats and house split.
- Identify charges versus rent, ensuring charges included in the rent elements are eligible for Housing Benefit, but do not work against those who may seek low paid employment (the affordable factor.)

3. Refer to the 'Estimator' (spreadsheets) to calculate rents and test accuracy of the proposed rent.

4. Test impact of the proposed new rents in relation to Association Business Plan and test viability in the short, medium and long term.

5. A review of the Association services in the light of "Best Value" to ensure quality and cost effectiveness throughout the organisation. The review should be of continual improvement when reviewing services throughout the year, repressing any areas of weakness within specified time restraints.

## METHOD STATEMENT

### 1. Summary Information for Rent Setting (April 2002)

The Government has confirmed its policy for implementing rent reform in the Registered Social Landlord (RSL) sector. The reforms aim to produce a coherent rent structure throughout England over ten years, commencing in April 2002.

## Key features from April 2002

- Guideline rents to be based on a 70% earnings and 30% capital values formula.
- The earnings element in the formula is varied in relation to the size of the dwelling.
- The new policy is to be phased in over a ten year period, with a £2 per week annual maximum rent rise (after adding the annual RPI related increase.)

The rent reforms expect RSLs to restructure their rents for all tenancies to within five percent of the policy target level within ten years.

The new rent levels, known as 'target rents', which must be achieved within ten years are calculated using the following formula:

$$\begin{aligned} \text{Weekly target rent} &= 70\% \text{ of the average RSL rent} \\ &\quad \times \text{relative weekly county earnings} \times \text{bedroom weight} \\ &\quad + 30\% \text{ of the average RSL rent} \times \text{relative property value} \end{aligned}$$

Once a target rent is established the current rent should be increased or decreased to meet the target within ten years. The target rent will change over time because it will also increase by the inflation based guideline rent, starting with an RPI + ½% increase from 2002/3.

Target rents under rent restructuring are exclusive of service charges. **A guideline limit of RPI + ½% has been set for housing benefit eligible service charges, subject to changes in the actual level of services.**

## 2. The Rent Plan

An annual rent plan that shows how rents will be restructured over the ten years implementation period needs to be produced. The Housing Corporation will expect the rent plan to show:

- The schedule of target rents
- The forecast movement of current rents to target rents over the period
- Forecast and actual losses or gains arising from the application of rent restructuring
- Assumptions made in the model
- The valuation method adopted
- A report on progress and any proposed amendments to the existing plan
- Obligations to tenants and lenders
- Covenant compliance

The plan needs to be monitored and reported to Board at least annually. The plan does not need to be submitted to the Housing Corporation routinely as they will rely upon data included in the RSR and FV5 returns to prove compliance information on rent restructuring. Compliance with loan covenants needs to be checked regularly.

If the target rent is more than £20 different from the current rent it will not be possible to achieve rent restructuring within the ten year period therefore an automatic extension will be introduced. The Rent Plan needs to be continued into following years until full implementation is achieved. If there is a change in tenancy during the implementation period the decision whether to relet at

target rent needs to be made by the Head of Housing Management depending on the effect on the Rent Plan.

Any delays in starting the restructuring in April 2002 must be justified in the Rent Plan.

The Association aims to spread the implementation over the full ten year period.

### 3. Reviewing under Best Value

A comprehensive review could include:

- Implementing efficiency savings in management costs
- Scrutinising maintenance and major repairs costs
- Reducing development programmes
- Exploring refinancing opportunities
- Ceasing or scaling down noncore activities
- Adopting asset management strategies
- Considering mergers or group structures

### 4. Valuing the stock

The Association will obtain valuations of the stock:

- Existing loan security valuations carried out rebased to January 1999 using published price indices

### 5. Rent Increases

#### 5.1 Annual increases

Increases to achieve Target rents will be implemented where rents are lower than target rent in order to converge over the ten year period.

Current rent will be implemented where target rent is less than the current rent. No increase will take place on these rents until they converge at which point an inflationary rise will occur. Where there are historically different rents for similar properties then the rents need to be averaged out across the similar properties to ensure that the rent are comparable without any financial loss to the Association.

#### 5.2 Relet rents

Properties relet during the year will be let on the current rent to ensure that the same rent is charged for similar properties. The current rents allow the rents to hit target rents during the convergence period so no additional rises are needed during the year.