

# Rents, rent differentials and service charges for housing associations

2010-11

**TSA**

**TENANT  
SERVICES  
AUTHORITY**



# Rents, rent differentials and service charges for housing associations

**This note sets the guideline limit for rent changes and rent cap levels for 2010-11, illustrates previous levels and indicates what approach should be taken if an association believes it may have viability issues or covenant compliance concerns.**

## 1 Introduction

The setting of rents by housing associations was outlined in Social Housing Rent Guidance published by the DETR in 2001.

The Housing and Regeneration Act 2008 section 197 permits the Secretary of State to issue a direction to the TSA on rents and Communities and Local Government has consulted on and now issued such a direction<sup>1</sup>. This section of the Act also requires TSA to comply with a direction.

We intend to do this by using our power under Section 193 to set standards about levels of rent. The current statutory consultation process sets out how we propose to do this.

**This letter replaces the provisions set out in Housing Corporation Circular 04/08.**

## 2 TSA expectations and/or policy

The proposed TSA standard on rents is planned to come into effect from 1 April 2010. That proposed standard, set out as a result of a CLG direction, continues the principles of rent restructuring previously published and it is therefore a regulatory requirement that housing associations should keep their annual rent changes to no more than the set guideline limit specified by the TSA. 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 — ie RPI+0.5% plus £2 per week, in any one year. CLG has made it clear in its direction that it expects guideline rents limits to track RPI whether that be upwards or downwards.

The relaxation of the downward limit of RPI+ 0.5% minus £2 per week on rent changes, applied to local authorities via the Three-Year Review of Rent Restructuring, continues to be extended to housing

<sup>1</sup> The Directions on Regulatory Standards – CLG 10 November 2009

associations which are encouraged to do the same, where their finances permit.

The rent influencing regime is set out in Circular 27/01 Rent Influencing Regime – Implementing the Rent Restructuring Framework, which is relevant to the overall level of change to existing rents. Target rents, which are part of that regime, should also be changed by the guideline limit. The guideline limits for 2010-11 and the previous four years are set out in Table A below.

Circular 30/01 Rent influencing regime – Supplemental Guidance for Implementing the Rent Restructuring Framework includes Appendix H to the rent influencing regime guidance and sets out details of the rent cap applicable to properties by bedroom size. The caps change each year by RPI+ 1%. The rent cap changes for 2010-11, and the previous four years are set out in Table B below. Circulars 02/02 and 05/03 remain relevant for supported housing.

The Three-Year Review of Rent Restructuring introduced higher bedroom weights for three and four-bed properties, and new, higher weightings for properties with five and six (or more) bedrooms<sup>2</sup>. These bedroom weights should be used to set target rents for properties using the rent restructuring formula as set out in the Housing Corporation publication Rent Influencing Regime – Implementing the Rent Restructuring Framework<sup>3</sup>. The higher bedroom weights are accompanied by a set of higher rent caps. The bedroom weights applicable in 2010-11 are set out for information in Table C below. Rent cap levels are set out in Table D below. Note the higher rent caps for 2010-11 have been calculated based on the notional levels that would have been applicable if these higher caps had existed in 2004-05 as a base year.

Associations should endeavour to keep increases in housing benefit eligible service charges to no more than the guideline limit of RPI+0.5%.

<sup>2</sup> First introduced in Housing Corporation Circular 05/05

<sup>3</sup> Issued with Circular 27/01

### 3 Provision of extensions to compliance

The TSA board has agreed that we will take into account the following when considering the case for extensions where complying in full with the restructuring formula would cause:

- a breach of covenant or other loan default before March 2013, or
- existing loan facilities to be exceeded by March 2013, or
- significant tenant promises to be broken where these were part of a stock transfer deal

Providing that all reasonable mitigating actions will be taken, including (but not exhaustively):

- making full use of restructuring flexibility, including the 105% tolerance
- cancelling or postponing uncommitted development projects
- reprofiling major repairs programmes where possible

Associations will be expected to submit a business case to the TSA for approval. This should be a base-case plan and must include scenarios demonstrating compliance with the criteria above, plus relevant

highlights from covenants and rent plans. The association should focus on a short-term timescale and demonstrate that it has taken full account of any possible efficiencies and adjustments to their cost base.

### 4 Extension conditions

Restructuring should be implemented as far as possible. Extensions will only be granted on the minimum number of properties and for the shortest period required to ensure continuing viability and compliance with covenants. Where a covenant may be breached on specific charged properties, without any other threat to the viability of the RSL, the extension will only apply to those properties and restructuring be implemented in full as normal on all other properties.

The association should demonstrate and assure the TSA that tenants whose rents would otherwise have reduced will benefit from any reduction as soon as possible, and rents ultimately end up at the same level as if an extension had not been granted. Priority should be given in any extension to reducing rents which are above target.

Any extension will be reviewed after 12 months to assess whether quicker compliance with rent restructuring is achievable.

Associations will have until the end of December 2009 to submit applications, and we will respond to them by 15 February 2010. Initial contact should be made with the lead Risk & Assurance contact at the TSA for the relevant association. Assessment work will be carried out by TSA Risk and Assurance staff and any decisions confirmed by the Executive Director, Risk and Assurance.

## **5 Enquiries**

For enquiries about this note, contact us at:

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Table A Target rent guideline limits

Year	Guideline limit	All items RPI change at previous September	Guideline limit for rent changes	Maximum increase to individual rent
<b>1 April 2010 to 31 March 2011</b>	RPI + 0.5%	-1.4%	-0.9%	-0.9% plus £2 per week
<b>1 April 2009 to 31 March 2010</b>	RPI + 0.5%	+5.0%	+5.5%	+5.5% plus £2 per week
<b>1 April 2008 to 31 March 2009</b>	RPI + 0.5%	+3.9%	+4.4%	+4.4% plus £2 per week
<b>1 April 2007 to 31 March 2008</b>	RPI + 0.5%	+3.6%	+4.1%	+4.1% plus £2 per week
<b>1 April 2006 to 31 March 2007</b>	RPI + 0.5%	+2.7%	+3.2%	+3.2% plus £2 per week

**Table B Rent cap changes**

Year	Rent cap change limit	All items RPI change at the previous September	Change in rent cap levels
<b>1 April 2010 to 31 March 2011</b>	RPI + 1.0%	-1.4%	-0.4%
<b>1 April 2009 to 31 March 2010</b>	RPI + 1.0%	+5.0%	+6.0%
<b>1 April 2008 to 31 March 2009</b>	RPI + 1.0%	+3.9%	+4.9%
<b>1 April 2007 to 31 March 2008</b>	RPI + 1.0%	+3.6%	+4.6%
<b>1 April 2006 to 31 March 2007</b>	RPI + 1.0%	+2.7%	+3.7%
<b>1 April 2005 to 31 March 2006</b>	RPI + 1.0%	+3.1%	+4.1%

**Table C Bedroom weights applicable in 2010-11**

No. bedrooms	Bedroom weights in 2010-11
<b>0</b>	0.80
<b>1</b>	0.90
<b>2</b>	1.00
<b>3</b>	1.10
<b>4</b>	1.20
<b>5</b>	1.30
<b>6 or more</b>	1.40

Table D Rent cap levels

Bedroom size	Rent cap in 2010-11	Rent cap in 2009-10	Rent cap in 2008-09	Rent cap in 2007-08	Rent cap in 2006-07
<b>Bedsit and one bedroom</b>	£113.32	£113.78	£107.34	£102.33	£97.83
<b>Two bedroom</b>	£119.98	£120.46	£113.64	£108.33	£103.57
<b>Three bedroom</b>	£126.65	£127.16	£119.96	£114.36	£109.33
<b>Four bedrooms</b>	£133.31	£133.85	£126.27	£120.37	£115.08
<b>Five bedrooms</b>	£139.97	£140.53	£132.58	£126.39	£120.83
<b>Six or more bedrooms</b>	£146.64	£147.23	£138.90	£132.41	£126.59

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This notice covers the guideline limit for rents, revised rent caps and bedroom weights. It also covers the steps that associations should take if they believe they may need to apply for an extension to the period over which the requirements of the rent standard are to be met.

This letter replaces the provisions set out in Housing Corporation Circular 04/08.

