



## Rent Setting Policy – 6 October 2021

# Rent Setting Policy

## 1. Introduction

Rent is the main source of revenue for the Housing Revenue Account (HRA), paying for the management, maintenance, and modernisation of our existing homes. It is also the primary source of funds for repaying the loans that enabled councils to leave the centralised subsidy system, and for the HRA to build or acquire new council properties.

From April 2020, the [‘Rent Standard’](#) was introduced. This required councils to set rents from 1 April 2020 in accordance with the Government’s [Policy Statement on Rents for Social Housing](#).

The Rent Standard (subject to some exceptions) does not change the way rents are calculated. The reason for this policy is from April 2020, the Rent Standard now applies to councils with the standard being regulated by ‘The Regulator of Social Housing’.

While this policy primarily relates to the council owned HRA homes, this policy also applies to the small number of council owned homes that are part of the General Fund, such as our hostels. The reason for this is the Rent Standard applies (subject to some exceptions) to ‘low-cost rental’ accommodation as defined by section 69 of the Housing and Regeneration Act 2008.

Accommodation is low-cost rental accommodation if:

(a) it is made available for rent, (b) the rent is below the market rate, and (c) the accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

The Council’s 30-year business plan is being reviewed and updated. The [Housing Revenue Account Budget 2021/22](#) had already taken account of this policy. The future years Housing Revenue Account Budget that goes to full council for approval will continue to take account of this policy.

This policy will be approved by the [Tenant and Landlord Improvement Panel](#), The Executive, and will be part of the agenda items for the Affordable Housing Implementation Group (AHIG) chaired by the Lead Member for Housing.

**Consultation** - prior to the first approval of this new policy by the Tenant and Landlord Improvement Panel (TLIP), the policy will have been presented for consultation to our involved tenant subgroups being the Independent Living Group, Neighbourhoods Group and Communications Group.

This Rent Setting Policy will be reviewed each year and be included as part of the annual Housing Revenue Account (HRA) Budget report to full council. As the HRA budget report is presented to the Tenant and Landlord Improvement Panel, this will ensure there is the opportunity for our involved tenants to provide scrutiny and challenge each year regarding the Rent Setting Policy.

The Assistant Director, Neighbourhoods and Communities is ultimately responsible for ensuring compliance for this policy document. This includes ensuring the council's Finance and Housing Teams set and maintain records of our rents, and that compliance is monitored including ensuring this work is part of testing for the annual internal audit programme.

This policy was adopted by the Executive on TBC 2021.

## **2. Purpose of this policy**

This policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and its General Fund low-cost rental accommodation, and the factors involved with this decision.

The purpose of this policy is to:

- Ensure that the council adheres to government legislation and regulation when setting rents.
- Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA and General Fund low-cost rental accommodation.
- Provide as much financial certainty for the HRA as possible.
- Maximise the income available to maintain our existing housing stock and to construct or acquire new homes.
- Support the delivery of the HRA Business Plan.
- While financial certainty is required such as to maintain the existing homes for our tenants, the policy includes the ability for the council to cap rents such as if the September CPI figure is unusually high meaning the full CPI increase gets capped.
- Ensure there is a rent setting policy in place approved by Executive and the council has the appropriate governance and assurance mechanisms in place.

## **3. Scope**

This policy applies to all properties and assets that are accounted for in the HRA and General Fund low-cost rental accommodation, including:

- Rented residential accommodation
- Service charges for HRA and General Fund low-cost rental accommodation.

It does not cover:

- Ground rents and service charges for leasehold residential accommodation (HRA properties originally purchased through the Right to Buy)

- Shared Ownership accommodation (the council has 81 shared ownership properties) that is exempt from the Rent Standard
- Pitches we rent at Grovelands Park, Carters Hill Park and Twyford Orchards where the pitch holders provide their own mobile home
- Garages owned by both the HRA and General Fund
- Seven guest rooms within our HRA sheltered housing schemes
- The Local Housing Company properties being Loddon Homes Limited and Berry Brook Homes
- Properties we lease from Private Landlords and let to people supported by Adult Social Services
- Shops and commercial premises.

#### **4. Rent policy background**

Since 2001, rents for properties let at Social Rent (being all of the rented homes in the HRA at 31 March 2020) have been based on a formula set by the government.

This creates a 'Formula Rent' for each property that is exclusive of any service charges, which takes account of factors such as the relative value of the property at January 1999, relative local income levels, and the size of the property. A principal aim of this formula-based approach is to ensure that similar rents are charged for similar properties. The operational detail for these calculations can be found in Appendix. B (page 24) at the [link here](#).

For all newly built or newly acquired dwellings, the council will obtain a January 1999 valuation through a desktop review. If comparable rents are not readily available, the council will commission a valuation that will be completed as per the requirements stated in the 'Policy statement on rents for social housing'. All existing January 1999 valuations are loaded to our rent accounting computer system.

Formula Rent is subject to a rent cap based on the number of bedrooms in a property. If Formula Rent would be higher than the rent cap for a particular property, the rent cap is used instead. The rent cap is expected to increase by CPI + 1.5% each year.

In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of market rent (inclusive of service charges). The introduction of Affordable Rent was intended to fund the construction of more new homes at a sub-market rent. Landlords can only let new properties at Affordable Rent where certain conditions apply (that would require a supply delivery agreement between the council and Homes England). Existing vacant properties may be converted from Formula Rent to Affordable Rent in certain circumstances.

From April 2015, the government made it possible for social landlords to charge a full market rent where a social tenant household has an annual income of at least £60,000.

Government policy has limited maximum annual changes to Formula Rent and Affordable Rent levels.

From April 2016, the Welfare Reform and Work Act 2016 required social landlords to reduce rents by 1% each year for four years, which had a significant negative impact on HRA Business Planning.

In October 2017, the government announced its intention to set a rent policy for local authority landlords and housing associations that permits annual increases of Formula Rents of up to CPI + 1%, starting from 1 April 2020, for a period of at least five years.

It did not override landlords' statutory obligation to complete the four-year rent reduction required by the Welfare Reform and Work Act 2016.

The new policy from April 2020 recognised the need for a stable financial environment to support the delivery of new homes. It provides a degree of reassurance for financial planning in the short term. The increases from 1 April 2020 of 1% plus CPI (at September of the previous year) is a ceiling and councils could apply a lower increase or freeze or lower rents if they wished to do so.

If the September CPI figure is unusually high, the council can if it feels it is financially viable to do so, make a decision about capping the CPI figure to a lower amount. Any such capping of rents will be included as part of the annual Housing Revenue Account budget setting report.

To control this new settlement, rather than legislate, the Secretary of State for Housing, Communities and Local Government required the Regulator of Social Housing to prepare a new Rent Standard to apply from 2020 to all Registered Providers of social housing, including councils.

From 1 April 2020, Registered Providers must comply in full with all the requirements and expectations set out in the Rent Standard. They must also comply with the Rent Policy Statement on Rents for Social Housing 2019 on the setting, increase and decrease of rents and service charges.

## **5. Legislation and Guidance**

- Housing Act 1985 Section 24
- Landlord and Tenant Act 1985
- Local Government and Housing Act 1989
- Housing and Regeneration Act 2008 (a) Section 197
- Guidance on rents for social housing - Department for Communities and Local Government, May 2014
- Rent Standard Guidance - Homes and Communities Agency, April 2015
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016
- Welfare Reform and Work Act 2016
- Direction on the Rent Standard 2019
- Policy Statement on Rents for Social Housing issued by the Secretary of State on 26 February 2019
- Rent Standard 2020 - Regulator of Social Housing, 1 April 2020

## 6. Relevant council documents

- [The Housing Revenue Account Budget 2021/22.](#)

## 7. The Policy

The council sets rents for its residential accommodation in the HRA and General Fund low-cost rental accommodation in accordance with the Policy Statement on Rents for Social Housing issued by the Secretary of State on 26 February 2019 and the Rent Standard 2020 issued by the Regulator of Social Housing, on 1 April 2020 and any subsequent amendments in legislation regulation or guidance.

### The key points of this policy are:

- a. All properties let under existing tenancies continue to have rent calculated using Formula Rent and maximum rent amounts charged will be a Formula Rent. Where property rental amounts have not yet reached their Formula Rent amount, the 1% increase plus CPI (from the previous September) will continue to be applied until and including 2024/25. Therefore, where a tenant's rent is below formula rent, the council (that is a requirement of the Rent Standard) will continue with annual increases of up to 1% plus CPI (from the previous September).
- b. All existing supported housing, including sheltered housing and other accommodation designated for older people, that becomes vacant and available for re-let will be let at Formula Rent. Our computer system will have formula rent already calculated and loaded for each property, so when a property becomes void, the formula rent is already known and will be re-let at the formula rent. Each year, new formula rents will be loaded to the computer system for the next rent charging year.
- c. The council will not convert existing general needs properties from Formula Rent to Affordable Rent.
- d. This council can after consulting with tenants, set rents at up to 5% above Formula Rent for general needs properties and up to 10% above Formula Rent for supported housing (the council has 241 sheltered housing units that for the purpose of the Rent Standard, are categorised as supported housing). This is known as 'rent flexibility'. The council will not apply 'rent flexibility'.
- e. All other existing general needs dwellings (that are part of the HRA) and general fund accommodation that becomes vacant and available for re-let, and all newly built or acquired general needs dwellings will be let at Formula Rent. The exception is where an existing social tenant completes a mutual exchange.
- f. Formula Rents will continue to increase by CPI + 1% each year from 2020/21 for a period of five years up to and including 2024/25. If the September CPI figure is unusually high, the council can if it feels it is financially viable to do so, (that includes taking into account of for example, financial resilience, commitment to the anti-poverty initiative, and affordability) make a decision about capping the CPI figure to a lower amount. The council can consider whether to apply this to all tenants rent charges, or whether to apply this cap to just the rents that have already reached formula rent, or in another way that has taken account of for

example, financial resilience, commitment to the anti-poverty initiative, and affordability. Any such capping of rents will be included as part of the annual Housing Revenue Account budget setting report.

**g.** The council will not charge higher rents for social tenants with a household income of above £60,000. The council does not have access to information relating to the income of its secure tenants, who have tenancies for their lifetimes rather than a fixed term and cannot insist that this is provided. No cost-efficient or effective system currently exists for councils to ascertain the true household income of existing tenants.

**h.** Service charges are separate to rent, and examples are grounds maintenance and block lighting for communal areas. The council has already unpooled service charges, so tenants pay a contribution to the actual costs for their home/block rather than all costs for the whole borough being pooled and divided between all tenants.

The *Policy statement on rents for social housing* encourages the council to keep service charge increases to within CPI + 1%. The council reviews the actual costs being paid and will only recover the actual costs of the services. Service charges will be based, when reasonably possible, on actual expenditure for the preceding financial year. This means that at each annual review, the service charges are set at a 'fixed' amount rather than being 'variable'.

Where new or extended services are introduced, and an additional charge may need to be made, the council will consult with tenants who would benefit from the proposed new service.

## **8. Rent variation: timing, roles, responsibilities, and authority**

The yearly change to rental and service charges are part of the annual HRA Budget Setting process, which is a decision for full council.

The Assistant Director, Neighbourhoods and Communities, has delegated authority to agree all Formula Rents that have to be calculated or changed during the financial year outside the annual budget-setting timetable in accordance with this policy.

## **9. Monitoring, Review and Evaluation**

This Rent Setting Policy will be reviewed each year and be included as part of the annual Housing Revenue Account Budget report to full council. It will be modified as necessary such as to accord with any future council policy change, new legislation, regulation or changes to the legislative and regulatory framework or significant change to the benefits system.

## **10. Equality and Diversity**

We are committed to ensure that this policy does not impact disproportionately on different equality groups. This strategy has been subject to an Equalities Impact Assessment.

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