

RENT 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 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 council owned homes, if applicable, that are part of the General Fund. 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.

This Rent Setting Policy will be reviewed each year and be included as part of the annual HRA Budget report to full council. As the HRA budget report is presented to the Housing Advisory Panel this will ensure there is the opportunity for our involved tenants to provide scrutiny and challenge each year regarding the Rent Setting Policy. Rent setting in terms of the rates will continue with the same timeline i.e. approval by Council in December.

The Section 151 Officer 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.

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.
- Ensure there is a rent setting policy in place approved by Council and has the appropriate governance and assurance mechanisms in place.
- Ensure that the council takes into consideration the cost-of-living increase when setting the rent, so as not to adversely contribute to increased resident hardship

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
- Garages owned by both the HRA and General Fund

It does not cover:

- Service charges for HRA and General Fund low-cost rental accommodation.
- Ground rents and service charges for leasehold residential accommodation (HRA properties originally purchased through the Right to Buy)
- Shared Ownership accommodation that is exempt from the Rent Standard

- Guest rooms within our HRA sheltered housing schemes
- Properties we lease from Private Landlords and let to people supported by Adult Social Services
- Shops and commercial premises.

4. Rent policy background

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, 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, including councils 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.

Since April 2020, councils are also required to complete an annual Local Authority Data Return to the Regulator of Social Housing (RSH). This analyses rent increase across stock types and sizes and RSH will raise queries where categories of stock exceed expected variation for example on stock losses and/ or rent increases.

The HRA stock comprises:

- Dwellings (General Needs and Supported Housing) let at Social Rent
- Dwellings (General Needs and Supported Housing) let at Affordable Rent
- Homes of Multiple Occupations (HMO) – let under licence
- Former dwellings used as offices / guest rooms

5. Social Rent – covered by Rent Standard

Initial Rent Setting

The council may set the initial rent on properties to be let at social rent at a level that is no higher than formula rent, subject flexibility level (see below).

Since 2001, rents for properties let at Social Rent have been based on a formula set by the government. The formula is set out in both the Department of Levelling Up, Homes and Communities (DLUHC) Rent Policy Statement and the Regulator of Social Housing (RSH) Rent Standard.

This creates a 'Formula Rent' for each property that is exclusive of any service charges, which has consideration for the location, 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 basis for the calculation of a formula rent is:

- 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.

Weekly formula rent (52 weeks) at April 2000 is equal to:

	70% of the national average rent
	Multiplied by relative county earnings
	Multiplied by the bedroom weight
Plus	30% of the national average rent

National average rent means the national England average rent in April 2000.

Relative county earnings means the average manual earnings for the county in which the property is located divided by national average manual earnings, both at 1999 levels.

Relative property value means an individual property's value divided by the national (England) average property value, as at January 1999 prices.

The national average rent that must be used, for April 2000 is **£54.62**

The national average property value to be used, for January 1999, is **£49,750**

County earnings data to be used for Wigan is **£307.30** per week

Bedroom Weights which must be used (specifically, applied to the earnings term in the formula) are:

Number of Bedrooms	Bedroom Weight
0 (i.e. bedsits)	0.80
1	0.90
2	1.00
3	1.10
4	1.2
5	1.3

Once a formula rent for 2000-01 has been calculated, it must be adjusted for each year based on inflation

The formula rent will rise by CPI + 1%, regardless of any caps or limits, or local increases at less than formula increase on actual rents until at least April 2024. A review of the social rent policy is due before April 2025 and will advise of any changes to the policy on increasing social rents.

Rent Caps

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. While the rent caps will increase annually by CPI + 1.5%, the annual change in rent for the tenant in a "rent capped" property must still be governed by the CPI + 1% limit on rent changes.

Rent Flexibility Level

The government's policy recognises that the council should have some discretion over the rent set for individual properties, to take account of local factors and concerns, in consultation with tenants.

As a result, the government's policy contains flexibility for the council to set rents at up to 5% above formula rent for General Needs properties and 10% for Supported Housing (as defined by guidance)

Changes to Rents

From 1 April 2020, the government's policy and the Rent Standard state that the council may not increase existing tenants' rents by more than CPI (at September of the previous years) + 1% in any year. The limit is a ceiling, and the council is free to apply a lower increase, or to freeze or reduce rents.

It should be noted that the government may also intervene and apply a ceiling on existing tenant rental increases at a level below CPI + 1%.

The council must adhere to the limits on rent increases even if a tenant's rent is below formula rent, or if they have previously applied a lower – or no annual increase. Where this is the case, the provider may only move the rent up to formula rent when the property is re-let following a vacancy.

In April 2015, the government changed its policy for historic rents that were below the formula rent at the date. Previously, rents had been allowed to rise by the equivalent of CPI + 1% (or RPI + 0.5%) plus up to £2 per week to move the rent towards the formula – this was known as "convergence". From April 2015, convergence was disapplied and the only time at which a rent can be moved to formula rent is on re-let or following a revaluation relating to major works.

Property Valuations

To ensure consistency, a common approach must be followed to the valuation of properties for rent purposes as far as possible. Valuations must be in accordance with a method recognised by the Royal Institute of Chartered Surveyors (RICS).

In calculating the formula rent, the value of the property should be based on an existing use value, assuming vacant possession and continual residential use. However, where it is not appropriate to value supported housing properties on this basis, the council can use a Depreciated Replacement Cost (DRC) methods of valuations.

Existing use value is not the same as "existing use value -social housing", which is typically used for resource accounting purposes (typically the calculation of depreciation) and makes a downward adjustment to the existing use value to reflect the lower value of properties when used for social housing.

The valuation must be made at January 1999 prices and national calculator tools exist to support these calculations. A downward adjustment to open market valuations – to reflect factors such as sub-market rents – must not be made for social rent purposes.

The council is not expected to carry out an individual valuation for each property, although they will need to attribute a value to each social rent property in order to calculate its formula rent. Rather than carrying out individual valuations, registered providers may decide to rely on more generic valuations for particular types and sizes of properties in different locations – for example, the use of Beacon values from existing housing stock, for acquiring former Right to Buy properties.

As the price base is constant, the valuation of a property for social rent purposes should remain generally the same over time. However, the council may re-value where it has carried out major works that materially affect the value of the property. This is only likely to arise in exceptional circumstances, as “major works” do not include normal stock management activity such as repairs, maintenance or updating of properties (for example fitting new kitchens or bathrooms). Major structural alterations (such as adding an extra room or extension) would be an example of “major works” for the purposes of this paragraph.

Conversion of Social Rent Properties

Government policy and the Rent Standard set out that the rents of properties previously let at social rent must continue to be set in accordance with the principles of re-let.

Social rent properties may not be converted to:

- a) Affordable rent, except where this has been agreed by Homes England or the Secretary of State
- b) Market rent; or
- c) Intermediate Rent

6. Affordable Rent – covered by Rent Standard

Initial Rent Setting

In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of gross market rent. “Gross market rent” means the rent (inclusive of any applicable service charges) which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

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). When

setting rents, the council must also ensure that they comply with any agreements or terms within the government's affordable homes programmes.

Properties let by the council are not subject to the Local housing Allowance (LHA). Nevertheless, in having regard to the local market context, the LHA may provide an indicator when setting affordable rents.

An affordable rent should be no lower than the potential formula rent for the property. In cases where the rent would be lower than the formula rent, the formula rent constitutes a floor for the rent to be charged. To ensure that the rent is not set lower than the formula rent, a formula rent should be calculated for affordable properties for comparative purposes.

Property Valuations

Valuations for initial rent setting must be made in accordance with a method recognised by RICS, in order to help to ensure that a consistent and transparent approach is taken to the valuation market rents. This may be known as a "Red Book" valuation.

The council may not always need to undertake a full valuation each occasion that a property is let on affordable terms. Where there is a sufficient pool of adequate comparable properties regularly changing tenancy, a desk-top review of recent transactions may be used to set re-let rents.

Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an affordable rent level for this market, the gross market rent comparables should be based on similar types and models of service provision, ideally with the local area. Where there are insufficient comparables for similar types of provision in the local area, valuers should be asked to extrapolate best estimates based on other areas.

Changes to Rent

In accordance with government policy and the Rent Standard, rents for existing tenants in properties let on affordable rent terms must not be increased by more than CPI + 1% (CPI September the previous year).

The limit is a ceiling and the council is free to apply a lower increase, or to freeze or reduce rents.

It should be noted that the government may also intervene and apply a ceiling on existing tenant rental increases at a level below CPI + 1%.

Re-setting Affordable Rent

When a tenancy of affordable rent housing is let to a new tenant (or re-let to an existing tenant), the council must re-set the rent based on a new

valuation to ensure that the new rent is not more than 80% of the relevant market rent at the time of letting. However, if the accommodation is re-let to the same tenant as a consequence of a probationary tenancy coming to an end, the rent must not be re-set. In this case the rent may not increase by more than CPI +1%.

Conversion of Affordable Properties

Affordable rent properties must not be converted (including when they are re-let) to:

- a) Market rent
- b) Intermediate rent.

Rents for Social Tenants with High Incomes

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.

7. Other Types of Accommodation

The Rent Standard does not cover the following types of low rental accommodation:

- Shared ownership low-cost rental accommodation
- Intermediate rent accommodation
- Specialised supported housing
- Relevant local authority accommodation
- Student accommodation
- PFI social housing
- Temporary social housing
- Care Homes

Definitions of these types of accommodation can be found in the Rent Standard. The council does not own any of the types of accommodation above. Where there is a move to provide this type of accommodation, the policy will be updated.

Rents for these properties are often calculated either contractually or set by a licence fee and as such cannot be regulated.

8. 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
- The Autumn Statement 2022

9. 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 (RSH), on 1 April 2020 and any subsequent amendments in legislation regulation or guidance.

The key points of this policy are:

Calculation of Rent

The council will charge social rent for all properties unless the charging of Affordable Rent is required as a condition of grant funding.

Social Rents

Social Rents will be set according to the formula set out in both the Department for Levelling Up, Housing and Communities (DLUHC) Rent Policy Statement and the Regulator of Social Housing (RSH) Rent Standard which has consideration for the location, size and value of a property in conjunction with local earnings. This is called the Formula Rent.

The basis for the calculation of a formula rent is:

- 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.
- Weekly formula rent at April 2000 (52 weeks) is equal to:
70% of the national average rent

Multiplied by relative county earnings
Multiplied by the bedroom weight
Plus
30% of the national average rent
Multiplied by the relative property value

The Formula Rent at April 2000 will be increased in line with the inflationary factors set out in the Rent Standard including those where there is a difference between General Needs and Supported Housing rates.

The Formula Rent (social rent) will be used to set rents for all new tenancies. Where there are local factors or concerns, then this policy contains flexibility for the council to set rents at up to 5% above formula rent for General Needs properties and 10% for Supported Housing, for newly acquired or build properties.

1999 Valuations

Where a new property is acquired or built as a “new build”, the basis of the 1999 valuation for the Formula Rent will be the discounted market valuation. The valuation must be in accordance with a method recognised by the Royal Institute of Chartered Surveyors (RICS). In calculating the formula rent, the value of the property should be based on an existing use value, assuming vacant possession and continual residential use. However, where it is not appropriate to value supported housing properties on this basis, the council can use a Depreciated Replacement Cost (DRC) methods of valuations.

Where a property is acquired by the council, and was formerly sold under the Right to Buy, the 1999 valuation may be calculated by reference to the relevant Beacon Value for the property by comparing it to similar stock on the same estate.

Where a property undergoes major works, typically an extension or to provide an additional room, and the “footprint” of the property changes, the council will calculate a revised 1999 value and a new Formula Rent, based on this valuation and the relevant number of bedrooms. The rent will be amended after the work takes place.

Where it is discovered on inspection that a property has a different number of bedrooms from its original Formula Rent calculation, but the “footprint” of the property has not changed. The Formula Rent will be amended to reflect the increase or decrease in the bedroom weighting, but a new 1999 valuation will not be required. This is usually the case where an existing bedroom has been divided to make two, or a wall removed to make a larger bedroom, rather than an extension added.

Re-letting of properties

When a property with a Social Rent becomes vacant for re-let, the rent applicable to the new tenancy will be the Formula Rent at the time of letting. However, affordability will be considered where the increase is deemed significant.

This may be a revised Formula Rent where exceptional major works have been carried out prior to letting, or the number of bedrooms had changed as a result of void inspection.

The council will not convert Social Rent properties to Affordable Rent properties

Affordable Rents

If the council is in receipt of grant from Homes England to develop new council housing for rent, it is a requirement of the grant that Affordable Rents are used.

The upper limit for Affordable Rent is 80% of market rent including all relevant service charges. It is typically higher than the social rent. The intention behind the introduction of Affordable Rent is to enable the council to generate additional capacity for investment in new affordable housing.

The Affordable Rent should be no lower than the Formula Rent for the property.

New Properties

Where the council acquires or develops a new build property and is in receipt of grant for the provision of affordable homes, the valuation for initial rent setting will be made in accordance with a method recognised by RICS, in order to help to ensure that a consistent and transparent approach is taken to the valuation market rents. This may be known as a "Red Book" valuation.

Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an affordable rent level for this market, the gross market rent comparables will be based on similar types and models of service provision, ideally with the local area. Where there are insufficient comparables for similar types of provision in the local area, valuers will be asked to extrapolate best estimates based on other areas.

For the purposes of calculating a Formula Rent as a lower limit on the Affordable Rent, the council will also obtain a 1999 value and calculate a Formula Rent for the property.

The weekly rent will be set at 80% of the market rent (including all relevant services charges), unless there are circumstances in which the rent is not sustainable at that level. The rent should be set to ensure that the council's HRA rental income is maximised and that the cost of the development is affordable.

Where the market rent provides an Affordable Rent that is less than the Formula Rent for the property, the rent will be set at the Formula Rent at the time of letting.

Re-letting of properties

When a property with an Affordable Rent becomes vacant for re-let, the rent applicable to the new tenancy will be re-set to the maximum of 80% of the market rent at the time of letting.

The council does not need to undertake a full valuation on each occasion that a property is let on affordable terms. Where there is a sufficient pool of adequate comparable properties regularly changing tenancy, a desk-top review of recent transactions may be used to set re-let rents.

The comparable market rent will be determined, and the rent will be set at 80% of that value. The new rent will be compared to the Formula Rent to ensure it is above that level.

Higher Income Social Tenants

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.

Rent Weeks

Rents will be calculated over 52 weeks and collected over 52 weeks. Where there are 53 Mondays in the financial year, the rent will be calculated on the 52 week basis and collected for 53 weeks.

Rent Increase

This policy seeks to strike a balance between the need to keep rents affordable whilst providing sufficient funds to support the council's need to maintain its housing stock and provide a standard of customer service that meets the Regulator's standards. The Regulator has put in place measures to monitor the Social Housing Sector, specifically with regard to rent and customer satisfaction.

An existing tenant's rent will be increased annually on the first Monday in April in line with the Rent Standard. The current provision is for an increase of CPI + 1%, CPI being based the rate in September of the previous year. New rents can be calculated and obtain committee approval with sufficient time to issue statutory notices to tenants.

Where the government introduces any ceiling on the increase in rent below that of the CPI + 1%, the new rent will increase in line with the government change of policy.

Tenants will be given a minimum of four weeks' notice in writing in accordance with the tenancy agreement. The council is under no obligation to consult with tenants to vary the rent amount. The council's decisions on rent levels may only be challenged by way of judicial review.

Breaches of the Rent Standard

Where an actual rent has been set at more than 5% of the Formula Rent for General Needs, or 10% for Supported Housing, the Rent Standard will have been breached. Appropriate action will be taken to correct the breach based on the circumstances that caused it.

The scale of the breach may require the council to self-refer itself to the Regulator.

Shared Ownership

The council does not currently own any shared ownership properties, but may in the future, Shared Owners pay both a mortgage on the part they own and rent on the part owned by the council.

Rents for shared ownership will be set by reference to the proportion owned by the council and the value of the property. Rent increases are subject to the legal agreement for the sale of the equity and are not regulated within the Rent Standard.

Data to be Held on Housing Rent Management System

As a minimum, the following data will be maintained on the council's housing management rent system and will be updated at each change:

Identifying Reference

- *Unique reference number or number-letter combination*
- *Address*

Tenure-type indicators

- *General needs or supported*
- *Social rent, affordable rent, HMO, hostel, shared ownership*

Formula rent calculation data

- *Number of bedrooms*
- *1999 property value*

Rent data

- *Current actual rent net of service charges for social rents and inclusive of service charges for affordable rents*
- *The Formula Rent*

Categorisation

- *Property types – flats, houses, etc*
- *Estate or scheme identification*

Leased to, or from another organisation

- *Properties that are in HRA stock but leased from another organisation*
- *Properties that are in HRA stock but leased to another organisation*

This will allow rents to be reviewed, re-let at Formula Rent and the Local Authority Data Return prepared.

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.

Actual rents for the new financial year will be loaded to the computer system before 1 April.

An independent check of rents at the last rent week of the year and the first rent week of the new year to ensure that all new rents have been set up correctly.

10 Rent variation: timing, roles, responsibilities, and authority

The policy is approved by the Cabinet. The relevant Cabinet Member will approve any policy decisions arising from the implementation of the policy on the recommendation of the Director of Housing.

Authority is delegated to the Director of Housing to implement the policy and delegate authority to officers accordingly.

11 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.

Updated December 2023

Signed off by Council 6th March 2024