

## Rent setting Policy



LODDON  
HOMES



BERRY BROOK  
HOMES

**Reference:** Version 2

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**Scope:** Loddon Home  
Berry Brook Homes  
From 1 April 2020 onwards

**Approved by:** Respective Boards of  
Loddon Homes and Berry  
Brook Homes

**Legislation:** Landlord and Tenant Act 1985,  
1987  
Rent Act 1965 and 1977  
Housing Finance Act 1972  
Housing Act 1974, 1980, 1985,  
1988, 1996 and 2004  
Housing Regeneration Act 2008  
Housing and Building Control Act  
1984  
Housing Association Act 1985  
Housing and Planning Act 1986  
Housing Benefit (general)  
Regulation 1987 (as amended)  
The Rent Acts (Maximum Fair  
Rent) Order 1999  
The Assured Tenancies and  
Agricultural Occupancies (Forms)  
[amendment] {England}  
Regulations 2003  
Welfare Reform and Work Act  
2016  
Housing and Planning Act 2016

**Date of approval:** September 2020

**Regulatory/  
Governance:** The Regulator of Social Housing  
Rent standard and guidance  
Social Housing Rents (Exceptions  
and Miscellaneous Provisions)  
Regulations 2016  
Social Housing Rents (Exceptions  
and Miscellaneous Provisions)  
(Amendment) Regulations 2017

**Date of next review:** September 2023

General Social Housing Rents  
Permitted Review Day Consent  
2016  
Ministry of Housing, Communities  
& Local Government  
Communities Policy statement on  
rents for social housing 2019

**Related  
Policies:**

Allocations Policy  
Current arrears recovery policy  
Tenancy policy  
Service charge policy

## **1. Policy Statement**

1.1 This policy applies to Loddon Homes and Berry Brook Homes which collectively will be referred to as the Local Housing Companies (the LHC).

1.2 The LHC has delegated responsibility to Wokingham Borough Council (WBC) for ensuring that this policy is implemented and delivered.

1.3 The purposes of this policy are to:

- set out the mechanisms by which the rents are calculated on an annual basis, in line with the prescribed government rent setting formula (where this applies), so that it is transparent and easily understood and also complies with the requirements of the Regulatory Framework for Social Housing.
- cover the provisions for setting rents that are outside of the regulatory framework's Rent Standard e.g. intermediate rents, shared ownership rents and market rents.
- ensure that the rents charged are affordable to our residents, whilst raising sufficient funds to maintain our properties to a high standard, build new homes, deliver relevant services and meet the Business Plan commitments.

1.4 The Government has introduced a new policy to set a long term rent deal for social landlords. This will permit annual rent increases on both social and affordable rent properties by to CPI plus 1 percentage point for a period of at least 5 years. This new policy will come into effect from 1 April 2020 provided that the landlord has completed the four years' social rent reductions by 31 March 2020. See Appendix 1 for detailed guidance on setting formula rents using this new policy.

1.5 The LHC will not adhere to the social and affordable rent policy requirements in relation to social tenants with high incomes. Refer to the Tenancy and Allocations policies.

## **2. Scope**

- 2.1 This policy applies to rent setting from 1 April 2020 in the line with the Government's new policy "Policy statement on rents for social housing" (February 2019).
- 2.2 The basis for rent setting is set out by the regulator and Government which defines the WHL rent setting obligations for all social housing rents.
- 2.3 This policy applies to general needs, sheltered, and supported accommodation whether let on a tenancy or licence.
- 2.4 The LHC is controlled by regulatory and statutory requirements and the terms of borrowing agreements about the level of rents which they can charge. Different approaches to rent setting can apply which are dependent upon the tenancy start date, the form of tenancy that applies to the property, and in some cases the terms of the grant that funded the development of the property.

### **3. Roles and Responsibilities**

- 3.1 The Finance department will be responsible for setting the relevant rents in accordance with this policy.
- 3.2 The LHC will ensure that all tenants receive at least one month's notice regarding any change in the level of rent being charged.

### **4. Definitions**

- Social rent: rents that are lower than similar privately rented properties
- Affordable rent: introduced in 2011, permitted<sup>1</sup> rents to be set up to 80% of market rent inclusive of service charges
- Intermediate Market Rent: a non-social rent product charging up to 80% of market rent
- Target rent: Introduced in 2002, registered providers were required to attribute a target rent to each of their social housing properties
- Formula rent: Introduced in 2013, this is the Government's policy for rent controls previously referred to as target rent. The formula is set by the Government based on the relative value of the property, relative income levels and the size of the property.
- Rent caps: these apply as a maximum ceiling on the formula rent and depend on the number of bedrooms in the property. Where the formula rent would be higher than the rent cap for a particular sized property, then the rent cap must be used instead. See Appendix 1
- Market rent: a non-social rent product where the rent that the accommodation might reasonably be expected to be let at in the private sector. Property size, location and service provision must be taken into account when determining what gross rent a property might achieve in the private rented sector.<sup>2</sup>

### **5. Legislation**

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<sup>1</sup> Delivery agreements between the registered provider (the LHC) and Homes England

<sup>2</sup> The LHC must also have regard to the conditions and policies set out in the Frameworks for the government's affordable homes programmes, where they are letting properties on affordable rent terms within these programmes

5.1 The LHC will have due regard to the relevant legislation and regulations as detailed above when applying this policy especially the new policy “Policy statement on rents for social housing” (February 2019).

## **6. Rent setting policy statements**

6.1 The following section outlines the principle basis of charging rent for different tenure types within the LHC’s property portfolios.

### **6.2 Social rented properties**

6.2.1 Social rented properties are low cost accommodation where the setting and management of rents is governed by the Regulator of Social Housing Rent Standard which sets limits on the rents charged.

6.2.2 Properties will only be let at social rent where the incoming tenant previously held a lifetime tenancy at a social rent that was granted prior to April 2012, or as required by a Section 106 development or Local Lettings Plan.

#### **6.2.3 Rent setting**

##### **6.2.3.1 New lets:**

The setting of the initial rent of properties to be let at social rent will be charged at a level that is no higher than the formula rent. The calculation of formula rent is based on a combination of property values (as at January 1999), local earnings and bedroom weighting and is now set out in the Ministry of Housing, Communities & Local Government Policy statement on rents for social housing. See Appendix 1 for details of the formula and the information and guidance needed to undertake these calculations.

The policy allows flexibility for the LHC to set rents at up to 5% above the formula rent (10% for supported<sup>3</sup>). When doing so, there should be a clear rationale that takes into account local circumstances and affordability in consultation with tenants.

##### **6.2.3.2 Re-lets:**

- Where a social rented property is re-let to the same tenant e.g. where a new fixed term tenancy is issued to a tenant after completion of their previous tenancy or starter tenant successfully completes their probationary period; this is considered a continuation of the same tenancy for the purposes of rent setting. There will be no new rent set but the existing rent will increase annually by CPI + 1 percentage point. See 6.4 below for special arrangements for 2020/21.
- Where a social rented property is let to a new tenant, the rent will be set at up to the higher of:

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<sup>3</sup> Supported housing for the purposes of the policy includes sheltered accommodation, extra care housing, support for people with drug/alcohol dependency, people presenting with mental health issues or learning difficulties, disabilities, young people leaving care.

- The formula rent (as has been reduced by 1% each year from 2016), **or**
- The rent charged as at 8 July 2015 as reduced by 1% each year from 2016.

### **6.3 Affordable rented properties**

6.3.1 Affordable rented properties are another form of low cost rental accommodation and differ from social rented properties in that affordable rent may be set at up to 80% of market rent, inclusive of service charge.

#### **6.3.2 Rent Setting**

##### **6.3.2.1 New lets:**

- Affordable rents will be set based on a percentage of gross market rent inclusive of service charge up to a maximum of 80% gross market rent. The LHC will obtain a valuation of gross market rent for initial rent setting in accordance with a Royal Institution of Chartered Surveyors (RICS) recognised method.<sup>4</sup>
- Where there are up to date comparables available, there may be no need for a full valuation for each similar property that attracts an affordable rent.
- Although the Local Housing Allowance does not apply for affordable rents, the LHC will assess the affordability of each property in relation to the potential applicant and calculate rent appropriate to each property, having regard to the local market context including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located.<sup>5</sup>
- In all cases, an affordable rent should be no lower than the rent calculated based on the current formula rent regime. In cases where an Affordable rent would otherwise be lower than the formula rent for a property, the formula rent will constitute a ‘floor’ for the rent to be charged.<sup>6</sup>

##### **6.3.2.2 Re- lets:**

- Where an affordable unit is re-let to the same tenant e.g. fixed term, no new rent will be set but the existing rent will increase by CPI plus 1% annually. See 6.4 below for special arrangements for 2020/21.
- Where the property is let to a new tenant, the rent will be calculated by obtaining a RICS valuation of the current market rent and set at up to 80% of the market rent. This includes conversions where a social rent property is converted to affordable rent.
- Where there are up to date (i.e. no older than 3 months) comparables available, there may be no need for a full valuation for each similar property that attracts an affordable rent.

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<sup>4</sup> The RICS sets out its principles for valuations in the “Royal Institution of Chartered Surveyors Valuation – Professional Standards” (known as the Red Book)

<sup>5</sup> See clause 3.7 of Policy statement on rents for social housing 2019

<sup>6</sup> See clause 3.8 of Policy statement on rents for social housing 2019

## 6.4 Annual increase for existing tenancies

6.4.1 As detailed in 1.4 above annual rent increases on both social and affordable rent properties is to be by CPI plus 1 percentage point for a period of at least 5 years. This new policy will come into effect from 1 April 2020 provided that the landlord has completed the four years' social rent reductions by 31 March 2020.

6.4.2 The LHC will usually increase rents on or following the first Monday in April. Four weeks' written notice of the rent increase will be given to residents as legally required. The LHC will notify the relevant Housing Benefit authority of any rent increase as appropriate; Claimants must also notify the authority if claiming Housing Benefit or the DWP if claiming Universal Credit to ensure their claim is amended.

## 6.5 Special arrangements for 2020/21 (the first year)

- The LHC are required to calculate the maximum rent increase for existing tenants for both social and affordable rent properties using the "2020 limit".
- The 2020 limit requires the LHC to use as a baseline the average weekly rent payable by a tenant for accommodation in respect of the fourth and final year of the social rent reduction plus (or up to) CPI + 1%.
- If the 2020 limit is above the formula rent then the increase is capped at CPI only.
- These arrangements do not apply where a property is re-let during the final year of reductions i.e. 2019/20. The LHA will be required to calculate the average weekly rent base on the period since the property was last let.

## 6.6 Intermediate market rent (IMR)

- IMR rent will be set at up to 80% of market rent levels which will be determined using the process detailed in section 6.3.2.1
- IMR rent levels will be reviewed in April each year, but not within the first year of the tenancy. Any increases will be limited to CPI + 1.0%.
- The LHC ensure any increase applied to the rent does not exceed 80% of the market value.

## 6.7. Shared ownership

- The total annual rent for shared ownership homes will be calculated at 1.5% of the unsold share at the time of purchase. The purchase price for a property will be determined using a RICS recognised methodology as required by the Housing Regulator's Tenancy Standard.
- The rent will be reviewed in accordance with the rent increase mechanism stated in the individual lease.
- All shared ownership rent from April 2015 will be increased by the previous years' September's RPI (12 month rate) + 0.5%.

## **7.0 Equality & Diversity**

7.1 The LHC recognise the needs of a diverse population and always acts within the scope of its own Equality and Diversity Policy, the Human Rights Act 1998, and Equalities Act 2010. The LHC work closely with its partners to ensure it has a clear understanding of its resident community with clear regularly updated service user profiles. The LHC will record, analyse and monitor information on ethnicity, vulnerability and disability.

## **8.0. Confidentiality**

8.1 Under the Data Protection Act 2018, and the Human Rights Act 1998, all personal and sensitive organisational information, however received, is treated as confidential. This includes:

- anything of a personal nature that is not a matter of public record about a resident, client, applicant, staff or board member
- sensitive organisational information.

8.2 The LHC employees will ensure that they only involve other agencies and share information where there is a legal basis for processing the information.

## **9. Review**

9.1 This policy will be reviewed on a three yearly basis or more frequently in response to changes in legislation, regulatory guidance, good practice or changes in other relevant LHC policies.

## **10. Performance**

10.1 Our performance in relation to the delivery of the services and activities set out in this policy will be monitored on an ongoing basis through our established reporting mechanisms to our associated boards.

## **11.0 Appendices**

**Appendix 1:** Information for calculating formula rents

## **Rent setting policy**

These appendices detail the general information required to calculate formula rents as provided by the Ministry of Housing, Communities & Local Government’s Policy statement on rents for social housing ( February 2019).

## APPENDIX 1: INFORMATION FOR CALCULATING FORMULA RENTS

The basis of the calculation is:

30% of a property’s rent based on relative property values

70% of a property’s rent based on relative local earnings

Bedroom weighting

The weekly formula rent 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 relative property value

1. **Rents:** the national average rent that must be used for April 2000 is £54.62.
2. **Property values:** The national average property value to be used, for January 1999, is £49,750.
3. **Earnings:** Berkshire earnings per week are £345.40.  
England average earning are £316.40
4. **Bedroom weights:** The following bedroom weights must be used (specifically, applied to the earnings term in the formula):

Number of bedrooms	Bedroom weight
0 (bedsits)	0.80
1	0.90
2	1.00
3	1.10
4	1.20
5	1.30
6 or more	1.40

**5. Annual Adjustment of Formula Rents:** Once a formula rent for 2000-01 has been calculated, it must be adjusted for each year using the following two-step process.



Step 1: Uprate to 2019-20

The following table must be used to adjust the 2000-01 formula rent to 2019-20 levels:

Year	Inflation	Additional	Total
2001-02	3.3%	1.0%	4.3%
2002-03	1.7%	0.5%	2.2%
2003-04	1.7%	0.5%	2.2%
2004-05	2.8%	0.5%	3.3%
2005-06	3.1%	0.5%	3.6%
2006-07	2.7%	0.5%	3.2%
2007-08	3.6%	.5%	4.1%
2008-09	3.9%	0.5%	4.4%
2009-10	5.0%	0.5%	5.5%
2010-11	-1.4%	0.5%	-0.9%
2011-12	4.6%	0.5%	5.1%
2012-13	5.6%	0.5%	6.1%
013-14	2.6%	0.5%	3.1%
2014-15	3.2%	0.5%	3.7%
2015-16	1.2%	1%	2.2%
2016-17	N/A	N/A	-1.0%
2017-18	N/A	N/A	-1.0%
2018-19	N/A	N/A	-1.0%
2019-20	N/A	N/A	-1.0%

The following figures will apply for the period from 2016-17 to 2019-20 in the case of supported housing:

Year	Inflation	Additional	Total
2016-17	-0.1%	1.0%	0.9%
2017-18	N/A	N/A	-1.0%
2018-19	N/A	N/A	-1.0%
2019-20	N/A	N/A	-1.0%

Step 2: Adjust from 2020-21 onwards

For 2020-21 onwards, the formula rent must be adjusted annually by CPI (at September of the previous year) + 1 percentage point. This applies regardless of any exceptions that operated under the social rent reduction.

**Rent caps:** Formula rent caps for 2019-20 are as outlined in the following table:

Number of bedrooms	Rent cap
1 and bedsits	£141.43

2	£149.74
3	£158.06
4	£166.37
5	£174.69
6 or more	£183.00

From 2020-21, rent caps will increase by CPI (at September of the previous year) + 1.5 percentage points, each year.

## APPENDIX B: EXAMPLE CALCULATION OF A FORMULA RENT

1. Consider a three-bed property in Leicestershire, for which the capital value is estimated to be £55,000 in January 1999.

2. The information needed to calculate the formula rent is in Appendix A. From this information:

Average rent at April 2000	£54.62
Average earnings in Leicestershire	£303.10
National average earnings	£316.40
Bedroom weight	1.10

National average property value in January 1999 £49,750

3. Putting these figures into the formula:

70% of the average rent  $70\% \times £54.62 = £38.23$

Multiplied by relative county earnings  $£303.10 / £316.40 = £36.62$

Multiplied by bedroom weight  $\times 1.10$

### **£40.29 subtotal**

30% of the average rent  $30\% \times £54.62 = £16.39$

Multiplied by relative property value  $\times £55,000 / £49,750$

### **£18.12 subtotal**

Adding together the sub-totals

### **£40.29 + £18.12**

### **£58.41 total**

4. In this example, the initial formula rent for 2000-01 is £58.41 – provided this amount is not higher than the rent cap for the size of property. If it is higher, then the formula rent must be replaced by the rent cap amount.

5. Otherwise, the formula rent for future years is then calculated by uprating this amount using the figures outlined for each year in Appendix A.