

## **POLICY FOR RENT-SETTING FOR COUNCIL HOMES WITHIN THE HOUSING REVENUE ACCOUNT**

Adopted on: / /2021

*To be reviewed at a minum every 5 years, or when appropriate as required.*

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## 1. Aims and objectives

- 1.1 This policy is designed to set out Croydon Council's (LBC) approach to rent-setting across its rented homes, within the Housing Revenue Account (HRA). LBC will ensure that it meets the requirements set out in the revised Rent Standard, which was issued by the Regulator of Social Housing (RSH) as directed by the Government and came into effect on 1 April 2020. We must ensure that we understand and follow the requirements of the RSH Rent Standard while ensuring affordability for our tenants and maximising income.
- 1.2 Failure to set rents correctly would put LBC at risk of non-compliance with rent and data quality requirements as set out by the RSH, and impact on our ability recover rents and to maximise income, putting the services we provide to our residents at risk. We could also be at risk of breach of contract for non-compliance with the requirements of existing tenancy agreements.

## 2. References

- 2.1 The [Direction on the Rent Standard 2019](#) ("the Direction") was issued by the Secretary of State in February 2019 and required the RSH to comply with the Policy Statement on Rents.
- 2.2 The [Policy Statement on Rents for Social Housing](#) ("the Policy Statement"), was published by the Ministry of Housing, Communities & Local Government (MHCLG) in February 2019 and sets out the Government's policy on rents for social housing.
- 2.3 The [Rent Standard](#), introduced by the RSH in April 2020, applies to all RP and Local Authority low-cost social rental accommodation. It allows rents to be increased annually up to the Consumer Price Index (CPI) measure of inflation, plus 1%. CPI is based on the September of the previous year.
- 2.4 [Setting rents for social housing – addendum to the Sector Risk Profile 2019](#) was issued by the RSH in March 2020 to supplement the [2019 Sector Risk Profile](#) report and sets out what the sector can expect with regard to the regulation of rent requirements in future.

## 3. Purpose and scope

- 3.1 LBC is committed to providing rented housing at genuinely affordable rents. This policy aims to assist in setting rent for Social Rent properties which are owned and managed by LBC within the Council's Housing Revenue Account and will normally be reviewed every five years to ensure compliance with the latest legal and regulatory requirements, or amended if appropriate.
- 3.2 This Policy aims to ensure current and future rents are set at levels which maintain the financial viability of the HRA, allow continual service improvement, are fair and affordable for all residents, and are compliant with statutory and

regulatory requirements. For homes where rents can increase, this will take annually every April.

- 3.3 This policy applies to 13,422 homes currently within the Council's HRA, and any new homes purchased by or developed within the HRA for Social Rent or London Affordable Rent (see definitions below).
- 3.4 This policy does not provide information or guidance regarding rents for other uses such as garages, parking spaces or caravan plots, and it does not provide information or guidance regarding service charges.
- 3.5 Any changes to rent levels will be communicated to residents clearly and in a timely fashion. Any rent increases will be explained to tenants in full and support will be provided to address any concerns or questions that they may have.

#### **4. Legal and Regulatory Framework**

- 4.1 The affordability of rents is one of the fundamental benefits of social housing and setting social housing rents in line with legislation and Government policy is an essential requirement for a Registered Provider (RP) such as the Council.
- 4.2 The RSH's published regulatory standards set out the outcomes that RPs are expected to achieve - they are set out in a regulatory framework and are classified as either 'economic' or 'consumer' standards. The revised Rent Standard, (which is an economic standard) came into effect on 1 April 2020.
- 4.3 The Rent Standard requires that RPs charge rents in accordance with the Government's direction to the RSH, and in accordance with the Government's Policy Statement on Rents for Social Housing. The key elements of compliance with the Rent Standard include:
  - 2020 limit on rents
  - Guidance on social rents
  - Guidance on affordable rents
  - Specific expectations
  - Moving between types of rent
- 4.4 As a Landlord, LBC is obliged to comply with the contractual arrangements detailed in its tenancy and leasehold agreements which specify initial rental charges and the mechanism for staging rental changes in accordance with Sections 13 and 14 of the Housing Acts 1988 (Assured Tenancies) and Housing Act 1985 (Secure Tenancies).
- 4.5 The Welfare Reform and Work Act 2016 required RPs to reduce social housing rents by 1% per year for four years from 2016/17 (the 'social rent reduction'). This legislative requirement has now been replaced as directed by Government, as reflected in the new Rent Standard published in line with the MHCLG Policy Statement.

## 5. Definitions

- 5.1 **Social housing** is low cost rental accommodation as defined in section 69 of the Housing and Regeneration Act 2008. Social housing is let at a **Social Rent**, (also often known as formula rent or target rent) which is based on a calculation derived from 'formula' set by government and is substantially lower than equivalent market rent (exclusive of service charges), or at an **Affordable Rent** which is set at up to 80% of the equivalent local market rent, and is inclusive of service charges. Properties are not permitted to be converted to another rent type, even on re-let.
- 5.2 **Formula Rent** (Social Rent) is calculated by using 30% of the property's relative value (based back to 1999), 70% of the relative local income levels (based back to 1999) and applying a weighting based on the number of bedrooms so that smaller properties will have lower rents. Information on how to apply the calculations is set out in the Policy Statement.
- 5.3 **Affordable Rent** can only be charged where a property has been provided under an agreed housing supply delivery agreement between the Council and the GLA, or an agreement between the Council and the Secretary of State. Existing Affordable Rent homes within the Council's HRA have rents set at a level no more than 65% of the Local Housing Allowance (LHA) level (inclusive of service charges). No Affordable Rent can be set higher than the Local Housing Allowance (LHA) which is the maximum amount of housing benefit available for a property of that size (in terms of bedroom numbers) in Croydon.
- 5.4 **London Affordable Rent** (LAR) is a rental product specific to the London area governed by the Greater London Authority, with rents set at lower than typical Affordable Rent levels but higher than typical Croydon Social Rents, capped at 'benchmark' formula rent cap levels. More detail on LAR levels is provided in the GLA's [Affordable Housing Programme Funding Guidance](#). LAR is viewed by the GLA as an Affordable Rent product for legal and regulatory purposes.
- 5.5 **Rent Flexibility Level** allows RPs to have some discretion over the Social Rent set for individual properties, taking into account local factors. This allows RPs to set rents at up to 5% above formula rent (10% for supported housing) if there is clear rationale for doing so.

## 6 Rent Policy Background

- 6.1 Since 2001, the majority of rented social housing properties have been let at Social Rents, calculated using a formula set by Government that included assessment of the relative property value, relative local earnings and a weighting for the number of bedrooms (see appendix A). This formula-based approach was intended to ensure that similar social rents were charged for similar properties within a local area. The property valuation used to initially set the rent must be appraised in accordance with the Royal Institute of Chartered Surveyors (RICS) 'Red Book' methodology.
- 6.2 In 2011, the government introduced the new 'Affordable Rent' tenure which allows rents (inclusive of service charges) to be set at up to 80% of market rent levels. The introduction of Affordable Rent was intended to improve the viability

of social housing organisations and encourage the development of new homes. The Council has previously developed/purchased 95 new homes for Affordable Rent, but hasn't converted any existing Social Rented properties to Affordable Rent. No further conversions from existing Social Rent homes to Affordable Rent tenure are allowed under the current regulatory regime.

- 6.3 The Welfare Reform and Work Act 2016 introduced a new rent regime for social landlords from 1 April 2016. The Act introduced a 1% rent reduction for existing tenants in social and affordable housing for four years from 2016. This was intended to help reduce national welfare spending, and reduce costs for tenants paying all or part of their rent.
- 6.4 In October 2017, the government announced a new rent policy for a period of least five years, replacing the previous legislative requirements. The new Rent Standard allows yearly increases of up to CPI plus 1% for Social and Affordable Rent properties from April 2020. This took effect for Croydon Council HRA homes from April 2020.
- 6.5 The current GLA Affordable Housing Programme (2016-21) allows for the development of new homes funded by the GLA for letting at or below LAR levels (the benchmark values as described above). The next GLA Affordable Housing Programme (2021-2026) removes this tenure, and the GLA are proposing to only fund the development of new homes for Social Rent (along with the intermediate products London Living Rent and Shared Ownership).

## **7. Setting rents**

- 7.1 Existing Social Housing rents will increase by CPI plus 1% every April. All tenants are entitled to four weeks' notice of a change to their rent. The council charges rent for 50 weeks of the year, so all rent figures will be calculated correctly to ensure the annual figures are appropriately presented pro-rata.
- 7.2 Council homes will have their rent level re-valued and updated whenever they become void, prior to re-letting. Occasional rent corrections will be made where the Council's rent-setting team identify errors in rent calculations, and tenants will be informed with appropriate notice.
- 7.3 General needs Social Rent levels are restricted by a Rent Cap set out in the Policy Statement to ensure affordability. Where a formula rent would be higher than the rent cap for a particular size of property, then the capped rent level must be used instead. The rent caps are increased each April by CPI (at September of the previous year) plus 1.5%. When a property that has been subject to the rent cap is re-let and the formula rent remains above the rent cap, the rent can be reset at the rent cap level, which will have increased each year by CPI +1.5%, rather than CPI +1%.
- 7.4 The LAR benchmark rents are set out in the [GLA Affordable Homes Programme Capital Funding Guide \(2016-21\)](#). The table below sets out the current LAR benchmark levels.

| <b>Bedrooms</b>         | <b>LAR<br/>2020-21<br/>per week</b> |
|-------------------------|-------------------------------------|
| Bedsits, Studios<br>& 1 | £157.46                             |
| 2                       | £166.70                             |
| 3                       | £175.97                             |
| 4                       | £185.23                             |
| 5                       | £194.48                             |
| 6                       | £203.74                             |

- 7.5 New general needs homes acquired by or developed for the HRA for Social Rent will have rents set in line with the national formula as set out in the Policy Statement. The current property value will be assessed by an independent valuer following the RICS 'red book' guidance and the Council's rent-setting team will use the Nationwide House Price Index Calculator to index back to an equivalent property value in 1999, for use in the Social Rent setting formula. The year 1999 local earnings data for use in the Social Rent formula is provided by the Office for National Statistics 1997-99 New Earnings Survey, uprated to 1999 price.
- 7.6 See appendix A for guidance regarding the process for setting formula rents, uprating to 1999 values and rent caps.
- 8. Equality & Diversity**
- 8.1 This policy will be implemented in accordance with LBC's existing Equality and Diversity Policies.
- 9. Monitoring and Implementation**
- 9.1 Rent levels and service charges will be monitored and compared across the areas where the Council holds housing stock. A summary of these charges will be reported in the annual HRA budget report submitted to Croydon's Tenant and Leaseholder Panel for review.
- 9.2 Assessment of the Council's overall HRA rental portfolio and its viability is undertaken by the Council's external consultants managing the HRA Business Plan (currently Savills).
- 9.3 The Housing Business Systems team oversee the operational delivery of the Rent Setting Policy, with rent-setting for individual properties undertaken by the Housing Income Control Manager.
- 9.4 Rents will be reported to the RSH through the annual regulatory Statistical Data Return submission.

## Appendix A:

### Information for calculating formula rents

This appendix provides the information, apart from property-specific details, that is needed to calculate formula rents.

1. The formula rent for a property is calculated using the following approach:

|   |  |
|---|--|
| <b>Weekly formula rent is equal to:</b> |  |
|   | 70% of the national average rent<br>Multiplied by relative county earnings<br>Multiplied by the bedroom weight |
| Plus                                    | 30% of the national average rent<br>Multiplied by relative property value                                      |

- National average rent means the national (England) average rent in April 2000. This is £54.62.
- Relative county earnings means the average manual earnings for the county in which the property is located (for Croydon, this is Greater London: £354.10 per week) divided by national average manual earnings (£316.40 per week). These are both at 1999 levels.
- Relative property value means an individual property's value divided by the national (England) average property value (£49,750), as at January 1999 prices.
- The following bedroom weights must be used in the formula:

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

### 2. Up-rating to current rent levels

Once a formula rent for 2000-01 has been calculated, it must be adjusted for each year using the following a two step process set out in Appendix A of the [Policy Statement](#). This allows for annual inflationary/deflationary changes up until 2019-20 and then inflation by CPI + 1%, including allowing for the four year rent reduction period required by the Welfare Reform and Work Act 2016. The

following table should be used for the uprating to 2019-20 (excluding properties excluded from the social rent requirements of the 2016 Act):

| 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%      | 0.5%       | 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%  |
| 2013-14 | 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% |

### 3. 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.



