

# Rent Setting

**Date: May 2018**

**Version: 2.7**

**Document Reference:**

**Document Owner: Bill Henderson**

**See also:**

**Date last reviewed: May 2016**

**Date due for next review: May 2019**

This Policy will be applied in a way that will not discriminate on the grounds of the race, gender, marital status, disability, sexual orientation, religion or belief, pregnancy or maternity status, gender reassignment, or age of the employee concerned. It applies to all staff.

<b>Version number</b>	<b>Amendment</b>	<b>Amended by</b>	<b>Date</b>
2.0	Entire procedure reviewed in light of Welfare Reform & Work Act, to reflect which tenancies get a rent increase or decrease.	Annette Morrison	4 <sup>th</sup> May 2016
2.1	Minor spelling changes and grammar amendments.	Annette Morrison	25 <sup>th</sup> May 2016
2.2	Added water rates must be charged separately for Intermediate & Affordable rents	Annette Morrison	18 <sup>th</sup> July 2016
2.3	Clarified that LHA caps should be applied to Affordable rents and changed order of wording in 3.1.2 & removed one of exceptions which referred to 75% rent levels	Annette Morrison	27 <sup>th</sup> September 2016
2.4.	Minor amendments to reflect change in approach to Affordable Rents	Annette Morrison	29 <sup>th</sup> Nov 2016
2.5	Amended reference to Int rents being set as per rent rise formula	Annette Morrison	27 <sup>th</sup> February 2017
2.6	Amended to include reference to Outward, following Internal auditors' recommendations & also where Int Rent exceptions apply.	Annette Morrison	22 <sup>nd</sup> March 2017
2.7	Added reference to new tenancy type of (Starter) Assured (Street Property – Fixed Service Charge)	Annette Morrison	26 <sup>th</sup> March 2018

## **1. Purpose of the procedure**

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To provide staff guidelines on Trust's Rent Setting policy and procedure to enable staff to process rent increases promptly, and set rents for new tenancies efficiently and within the appropriate legal guidelines.

## **2. Standards**

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Rent setting to be in line with Welfare Reform and Work Act 2016. This includes -

- All Secure rents to be decreased annually
- All Assured rents to be decreased annually
- Intermediate Rents to be increased annually (exceptions noted in the policy)
- All new tenancies rent to be set in accordance with policy

## **3. Policy**

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Rents should be set in accordance with Welfare Reform and Work Bill and guidance issued following this

### **3.1. General Needs Rent Setting**

Following the Welfare Reform and Work Bill General Needs rents (both social & affordable) will be subject to a 1% cut.

#### **3.1.1. Social Rent –**

Where a social rent property is let to a new tenant, this will be for re-lets and new lets, the rent should be set at the formula rent, for 2015/16, taking into account LHA levels, when comparing against the LHA level, service charges should be included in the total rent. The rent should be set at the level for whichever is lower. Just as actual rents are to be reduced by 1% annually, so the formula rent will also be reduced by 1% annually from 2016 until 2020.

From 3<sup>rd</sup> October 2016 the rents will be set at 2015/16 rent levels minus 1%.

There is a rent formula: 70% of the rent will be calculated based on the relative earnings of the local region compared to the national average as per the Government's statistics, this part of the rent will also be weighted to take into account the number of bedrooms in each property. 30% of the rent will be calculated based on the relative value of each property compared to the national average.

Newlon has developed a Rent Plan, which demonstrates how these rents are calculated.

Each year the Head of Income will circulate a table of rents to be used to calculate that year's rents which will inform Lettings for what rent they should re-let properties on. The Lettings Team are responsible for ensuring that all re-lets are compliant with the rent decrease regime.

#### **3.1.2. Affordable Rent –**

Where an affordable rent property is let to a new tenant, (re-lets and new lets, this will only apply to properties that have been previously let as Affordable Rent or Business Development have set the initial rent at an Affordable level for new properties) including conversions of social rent properties, the rent can be set as per the table below % of the market in the usual way. Rents should be set taking into account LHA levels, the rent should be set at the level for whichever is lower.

The Lettings Officer will be responsible for ensuring that they check the rent type the property was previously let on and ensure that this is followed into the next tenancy.

1 beds	80% of Market Rent
2 beds	70% of Market Rent
3 beds	60% of Market Rent
4+ beds	50% of Market Rent

Water Rates/Charges should be charged for separately and are not included as part of the overall rent.

### 3.1.3. Exceptions

- Where the property is subject to an existing legally binding Rent Guarantee (no such property Guarantees are currently known).
- Where 75% of Market Rent is less than Social Rent plus service charge.
- Where a Local Authority makes a representation about a specific property.

All exceptions (with the exception of the LHA restriction) will be authorised by the Newlon Housing Director or Head of Income.

### 3.1.4. New Developments –

Where Business Development have set a rent committed to in a bid, that rent should be used. In cases where this has not already been set, the Assured Re-Let method should be used. These rents should be in line with other similar properties in the Borough. New development rents should not include the 5% uplift in the initial rent.

## 3.2. General Needs Rent Increases

3.2.1. Procedures for increasing rents for Assured Tenancies must comply fully with sections 13 and 14 of the Housing Act 1988 and/or the tenancy. This means that rent increases must not take place before the anniversary of the previous increase or the start of the tenancy (the 'annularity' rule); and must be notified to tenants in a prescribed form at least one calendar month before the increase takes effect. (This is available on the Intranet) The term 'rent' on the Section 13 Notice refers to rent and fixed term service charges. Variable service charges should not be included in this total, but referred to in an accompanying letter.

3.2.2. The accompanying letter should clarify the issue of service charges by stating 'In accordance with Section 13 of the Housing Act 1988, we enclose a notice informing you formally of the proposed increase. Please note that the information overleaf does not include any service charges that you may already pay and this is included in the TOTAL CHARGE above'.

### 3.2.3. Exceptions

Schedule 13 of the Housing Act does not apply to Fixed Term Tenancies or Assured Shorthold Tenancies so appropriate wording needs to reflect this. The rent type will dictate whether a resident on a Fixed Term Tenancy will get a rent increase or decrease.

### 3.2.4. Assured Rent Rises

Prior to the introduction of the Welfare Reform Act, the policy was as follows.

As of April 2015 they are limited by Consumer Price Index (CPI), plus 1%. Previously this was determined by RPI + £2 per year and for Secure Rents, whose rises are every two years, increases were up to two years' RPI + 0.5% and £4.

The Head of Income is responsible for formulating a spreadsheet extracting data from Orchard for those properties getting a rent rise (taking into account the 'annularity' rule), applying the Rent Increase formula, taking into account caps & targets.

If they are already above the rent cap then the rents should be frozen. These rent caps will increase each year by RPI +1%. Where target rents have not been reached, the following formula will be applied to ensure that no rent increase goes above this level. RPI+0.5%+ £2 or RPI+0.5% (over 2 years) + £4 for secure rents

The Quality Manager/Director of Housing is responsible for checking a sample to ensure that the formula has been correctly applied.

### 3.2.5. **Assured Rent Decreases –**

From 3<sup>rd</sup> October 2016 the Affordable and Social Rents will be subject to a rent decrease based on 2015/16 rent levels minus 1%. The Head of Income is responsible for calculating this and ensuring the rent decrease letters are sent out on time. A standard rent decrease letter will need to be used as s13 notices cannot be used for rent decreases.

### 3.2.6. **Treatment of Service Charge**

Service charges are included in Market Rents but excluded from Social Rents.

Water Rates (where collected by Newlon) will be charged on top of the % of Market Rent assessment.

### 3.2.7. **Fixed Service Charges –**

Where a Fixed Service Charge has been charged (this will be for new lettings from March 2018 in flats for street properties). The Head of Income will be responsible for reviewing this charge for the April increase. The Head of Income is responsible for ensuring that residents are notified of any changes.

Each year the Head of Income will set the new fixed service charge to be charged which will be in line with the service charge increase that year, this be based on September CPI+1%. Lettings will be responsible for checking this and applying the new level for all subsequent lettings.

## 3.3. **Fixed Term Tenancies**

The initial rent set/increase regime will be determined by the rent type and the relevant policy should be followed for this, so where Affordable or Social Rent the guidance above should be followed. Where the rent is Intermediate then the guidance below should be used.

Water Rates/Charges should be charged for separately and are not included as part of the overall rent.

### 3.3.1. **Rent Rises for Fixed Term Tenancies**

This will follow the same principles, however it must be noted that the terms under which the rent can be increased are within the Tenancy Agreement rather than S13 & 14 as in other General needs rent rises.

## 3.4. **Shared Ownership Schemes**

The initial rent is set by Business Development as part of scheme feasibility. Annual rent increases are then applied by the Income Team in accordance with lease (these vary).

## 3.5. **Secure Rent Rises**

### 3.5.1. **Rent Increases**

Prior to the Welfare Reform Act, the policy for rent increases was as follows –

From April 2015 the CPI formula will apply. Before each financial year the Head of Income will provide (on the basis of a download of Orchard and the table of increases) a list of

Secure Rents, which will be implemented by the Income Recovery Team Leaders. The rents will be provided by the end of January before the beginning of the year.

The rent registration (Secure Rents) process is as follows:

- Three months before the rise is due an application is made to the Rent Officer, using a Rent Service RR1 form and the rent set by the Head of Income. Income Team leaders
- When the Rent Officer replies, after visiting or consulting the tenant, a new rent is applied for two years. The Income Recovery team informs the tenant.
- The last rent increase date is entered on Orchard and used to generate the next rent increase. The actual rent charged should be updated on Orchard.

Where the Rent Officer recommends a higher rent than the one Newlon has set. Newlon will keep to the rent that has been calculated by Newlon.

From 3<sup>rd</sup> October 2016 the Secure Rents will be subject to a rent decrease the same as Affordable and Social Rents based on 2015/16 rent levels minus 1%. The Head of Income is responsible for calculating this and ensuring the rent decrease letters are sent out on time. A standard rent decrease letter will need to be used as s13 notices cannot be used for rent decreases.

### 3.5.2. **Re-lets**

Where a Secure tenant is being issued with a new Secure Tenancy, the Lettings Officer is responsible for checking with the Head of Income in order to set the new rent. The rent will need to be set in accordance with the following –

The rent that was charged on 31<sup>st</sup> March 2016 on that property should have a 1% reduction applied to it.

### 3.6. **Intermediate Rent**

This applies to self-contained and shared accommodation

3.6.1 Intermediate Rents are set at a level of 70% of Market Rent as at the date of handover. Market Rents will be researched and approved by the Head of Housing at the time of letting. They will then be reduced to 70% of market to create an Intermediate Rent. Any Intermediate Rent tenant signed up prior to 1<sup>st</sup> February will be subject to a rent increase in April, those signed up after this date, will not be subject to a rent increase in April.

3.6.3. Please see Appendix One for exceptions to the Intermediate Rent increase regime. These will require a rent decrease in October until 2019.

3.6.2. Intermediate Rents are reviewed periodically and increased at CPI+1% or an amount set in the tenancy agreement. Responsibility is with the Head of Income.

3.6.3. The Royal Free Nomination Agreement determines the rate of increase (January RPI plus ½% - but see formula in agreement). The increase is applied from April each year. The Head of Income is responsible for coordinating this.

3.6.4. Water Rates/Charges should be charged for separately and are not included as part of the overall rent.

### 3.7. **Rent To Home Buy**

No percentage is stated in the tenancy so they will be increased by CPI +1%. This is coordinated by the Head of Income.

### **3.8. Outward Rents-**

- 3.8.1. Rent Increase – Outward are responsible for applying the rent increase or decrease as informed by legislation or guidance from the regulator, currently the Homes and Community Agency. Outward (Housing Operations Manager) should ask Newlon (Service Improvement and Agency Manager) for ratification of the proposed change. The Head of Income shall audit the actual rent increases proposed by Outward, which Outward will make available at least one week before the postal deadline for the increase.

From October 2017 Outward's Supported Housing Affordable and Social Rents will be subject to a rent decrease based on 2016/17 rent levels minus 1%. Outward's Housing Operations Manager is responsible for calculating this and ensuring the rent decrease letters are sent out on time. A standard rent decrease letter will need to be used as s13 notices cannot be used for rent decreases.

- 3.8.2. Rent Setting – For New-Lets this will be set by Business Development. For Re-lets, the Head of Income will devise a spreadsheet for Outward's rents, which Outward must follow.

### **4. Housing Benefit**

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The Head of Income is responsible for arranging the printing and distribution of the rent increase letters, will send spreadsheet to HB offices and send letters where requested and one copy to be sent to the tenant, and coordinating the filing on File Stream of these.

### **5. Service Charges**

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- 5.1. When Shared Owners and Intermediate Rents rents are increased in April at the same time as service charges the Business Analyst (Service Charges) will coordinate the distribution of notifications to residents.
- 5.2. The Business Analyst (Service Charges) should not carry out any service charge reviews for the 4 week period of the (October) rent increase, as this can lead to errors on Orchard occurring, as well as confusing information being sent to Housing Benefit and the tenant.
- 5.3. Where the rent and service charge are combined to make one charge, the Lettings team are responsible for ensuring that the rent covers the cost of a service charge, plus a rent, allowing an appropriate margin for Newlon for re-lets and the Housing Projects Manager is responsible for this task for new lets.

## APPENDIX ONE

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Intermediates that should have rent decrease.

- Ambrose Court
- Flat 2 56 Amhurst Road
- Beachcroft Court
- Flat 4 69 Brick Lane
- Flat E 146-150 Clarence Road
- 161A Elderfield Road
- 5 Ewen House, Caledonian Road;
- 19 Fisher House, Copenhagen Street
- 35 Fisher House, Copenhagen Street
- 95 Freshfield Avenue
- Flat A, 50 Ickburgh Rd
- 8 Leabank Square
- Lord Graham Mews
- 4B Maitland Place
- 4C Maitland Place
- Mallory Court
- 40 Molton House, Charlotte Terrace;
- 224 Old Ford Road
- Flat 5 22 Primrose Gardens;
- Flats 14; 15; 19 & 3 Prospect House
- Prowse Court
- 6 Samford House, Charlotte Terrace;
- Flat 1, 13 Sewdley Street