



Rent Setting Policy

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1. SCOPE

1.1.1. This policy covers rent setting for all tenures at One Housing Group. This includes properties owned by Community Housing Association, Toynbee Housing Association, Toynbee Partnerships Housing Association and Island Homes.

1.1.2. This policy will come into force on 1 April 2009.

2. REVIEW FREQUENCY

2.1.1. This policy is to be reviewed annually to ensure compliance with the latest legal and regulatory developments. Review is the responsibility of the Group Leasehold Manager.

3. INTRODUCTION

3.1.1. OHG is aware that tenants may be on low incomes and seeks to provide them with an affordable rent. OHG is furthermore aware of the housing shortage in London and the South East and it is a corporate objective to help address this by developing new, good quality, affordable housing. The primary source of income at OHG for such developments is its rental income. Therefore this policy seeks to strike a balance between the need to keep rents affordable while providing sufficient funds to support the ambitious development programme. In this way, the policy seeks to achieve best value for current and future tenants.

3.1.2. This document refers to the Housing Corporation, which on 1 December 2008 was superseded by the Tenant Services Authority and the Homes and Communities Agency.

3.1.3. Rent setting is the responsibility of the owner of the property (or lessee if the original term of the lease was 21 years or more).

3.1.4. The acronym RPI is frequently used in this document. This refers to the Retail Prices Index published by the Office of National Statistics. The RPI figure to use is always that of the previous September unless stated otherwise. This is as specified in the government's rent restructuring regime.

3.1.5. Relet rents are in all cases (with the exception of market rent) to be stored on Universal Housing.

3.1.6. In writing this policy, the following have been considered:

- Housing Corporation Rent Influencing Regime and supplementary guidance
- Housing Act 1988
- Part VI, Rent Act 1977
- Housing Corporation Capital Funding Guide



3.1.7. The Rent Influencing Regime, within which this policy operates, is in effect until April 2012. At the time of writing, nothing has been announced regarding its successor.

4. GENERAL NEEDS

4.1. OVERVIEW

4.1.1. General needs rents must be set in accordance with the government's rent restructuring regime. The aim of this regime is to converge the rents of social landlords (Local Authorities and Housing Associations) so that tenants in similar properties in similar locations pay similar rents. For more information, see appendix A: rent restructuring.

4.1.2. The rent restructuring regime introduces the concept of a *target rent* based on a formula which takes into account property value, number of bedrooms and local average earnings. It also introduces the concept of a *rent cap*. The rent cap is the upper limit which associations can charge for a property irrespective of its target rent, so if the target rent exceeds the cap, the cap is charged. The rent cap varies by number of bedrooms, but not by location or value of property. Rent caps are increased at RPI + 1% per year.

4.1.3. The restructuring regime allows social housing providers 5% flexibility in converging to target rents. OHG's policy is to converge to rents of 105% of the target rent or the rent cap, whichever is lower (referred to in the remainder of this document as the *OHG target rent*). This achieves the objective of providing affordable rents while providing sufficient funds to support the development of further social housing stock.

4.2. RELETS

4.2.1. Properties are to be relet at the OHG rent for the property in question. Housing staff will obtain rents from the Universal Housing database system. More detail is given in appendix B: rent data on Universal Housing.

4.2.2. If a relet is to be a secure tenancy, the above applies unless the rent exceeds the registered rent, in which case the registered rent shall be charged.

4.3. NEW LETS

4.3.1. Newly developed properties developed with Housing Corporation funding, in addition to being subject to the rent restructuring regime, are also subject to restrictions imposed in the investment contract. These take precedence over the rent restructuring regime.



4.3.2. Where applicable, e.g. properties funded by the Housing Corporation, the rent agreed in the investment contract will be charged and the rent will converge towards the OHG target rate via the annual rent increase.

4.3.3. Where a property was developed without Housing Corporation or other funding which binds us to charge a particular rent, the OHG target rate will be charged. New lets starting on 1 October to 31 March will be let on the following year's OHG target rent subject to the limitations outlined in paragraph 4.5.3.

4.4. RENT INCREASES – ASSURED TENANCIES

4.4.1. The term 'assured tenancies' includes Assured Shorthold Tenancies.

4.4.2. Rent increases for monthly tenancies take effect on 1 April and for weekly tenancies the first Monday in April. The tenant must be given appropriate notice as stipulated in their tenancy agreement and in statute, whichever applies. There are historic exceptions to the April increase date at Community and Toynbee and separate rent increases occur at other times of the year for these tenants. However, the mechanism of increase and rent levels are as for other tenants unless specified otherwise in the tenancy agreement.

4.4.3. Rent increases are carried out in accordance with Section 13 of the Housing Act 1988 and rent the appropriate statutory notice (currently the Form 4B) will be used for the purpose.

4.4.4. The rent will increase by an amount of $RPI + 0.5\% + £2$ per week unless this exceeds the OHG target rent, in which case the OHG target rent will be charged. If the current rent is higher than the OHG target rent then it shall be frozen.

4.4.5. Current tenancy agreements in use in OHG do not permit a rent increase in the first year of the tenancy.

4.5. RENT INCREASES – SECURE TENANTS

4.5.1. OHG applies to re-register fair rents for properties occupied by secure tenants every two years. However, rent increases are applied annually as the rent restructuring regime also applies to secure tenants and, under the rent influencing regime, the rent cannot increase by more than $RPI + 0.5\% + £2$ per week in any year (although see paragraph 4.5.3).

4.5.2. The rent increase is to be applied annually in a similar manner as for assured tenants (see 4.4) with the additional proviso that the rent cannot exceed the registered rent. Different wording is also used in the rent increase notification.

4.5.3. Community was given permission by the Housing Corporation to raise its secure rents by $RPI + 1.0\% + £2.75$ per year and may therefore increase its rents by this



amount. The rent charged cannot exceed the registered rent or the OHG target rent.

4.6. EXCEPTIONS

In section 7.9 of the Housing Corporation's guidance on rent restructuring ('The Rent influencing Regime: implementing the rent restructuring framework – October 2001) it is stated that the law and existing contracts take precedence over the rent restructuring framework. Such agreements exist in the following case, and others:

157 Putney High Street

These four flats are owned by CHA on a lease which specifies the level of the annual rent increase at 5%.

5. SUPPORTED HOUSING

5.1.1. The rent restructuring framework applies to supported housing in much the same way as general needs housing. Therefore, the policy in section 4 applies to supported housing as well, although there are exceptions:

5.1.2. In recognition of the increased cost of providing supported housing, the restructuring framework allows an additional 5% flexibility in setting rents. Therefore, the OHG rent for supported housing is equal to 110% of the target rent or the rent cap, whichever is lower.

5.1.3. One Support manages a number of properties on behalf of other organisations. It is the responsibility of the owning organisation to set the rents.

5.1.4. One Support owns a number of properties that are managed by other organisations. It is the responsibility of One Support to calculate the OHG target rent in order to provide relet and new let rents to the managing agents. It should also calculate rent increases.

5.1.5. Where appropriate, the rent increase notice or covering letter will need to deal with any changes in supporting people grant.

6. KEYWORKERS

6.1.1. Rent restructuring does not apply to keyworker properties.

6.1.2. The Housing Corporation Capital Funding Guide states that 'the rent must not exceed 80% of the current local market rent. Wherever possible a figure significantly lower than this but higher than social rents should be anticipated. Annual rent increases should be limited to RPI plus 0.5%'. This applies only to properties built with Housing Corporation funds, but is treated as best practice for all key worker properties.



6.1.3. New let rents are as specified in the funding agreement.

6.1.4. Relet rents are to be equal to the rent of the last tenant plus any rent increase(s) that would have been applied had the property remained tenanted. This rent will be obtained from Universal Housing.

6.1.5. Tenancies commencing from 1 October to 31 March are to be let at the rent for the following year. Housing staff will obtain these rents from the Universal Housing database system. More detail is given in appendix B: rent data on Universal Housing.

6.1.6. Paragraphs 4.4.1 to 4.4.3 regarding the timing of rent increases also apply to keyworker tenants. Rent increases shall be RPI + 0.5%.

7. HOMELESS FAMILIES INITIATIVE

7.1.1. Rent restructuring does not apply to temporary accommodation for homeless families such as Homeless Families Initiative (HFI) properties. However, the rent influencing guidance does state that the maximum rent increase that can be applied in each year is RPI + 0.5%

7.1.2. Relet rents are set to the maximum Housing Benefit amount for the property.

7.1.3. Tenancies commencing from 1 February to the next financial year are to be let at the rent for the following year. Housing staff will obtain these rents from the Universal Housing database system. More detail is given in appendix B: rent data on Universal Housing.

7.1.4. Paragraphs 4.4.1 to 4.4.4 regarding the timing of rent increases also apply to HFI tenants. Rent increases shall be RPI + 0.5% unless this exceeds the maximum Housing Benefit amount, in which case the maximum Housing Benefit amount will be charged. If the rent is above the maximum Housing Benefit amount, the rent will be frozen.

8. SHARED OWNERSHIP / NEW BUILD HOMEBUY

8.1.1. Rent restructuring does not apply to shared ownership properties and other low cost home ownership schemes.

8.1.2. Rent setting for all shared ownership properties is specified in their lease and since 1989 has been based on RPI increases. However, there may be variations depending on when the lease was granted. For example, some very old shared ownership leases (pre-dating 1989) provide for a joint application to the Rent Officer to determine a rent.



8.1.3. The occupiers of the 'self build' properties are leaseholders. The lease specifies that the annual rent is the rent as at the commencement date increased annually by the Retail Price Index of the previous November. For the increase in April 2005 this was 3.4%.

9. MARKET RENT – CITYSTYLE LIVING

9.1.1. Rent restructuring does not apply to market rent properties

9.1.2. CSL aim to achieve market rents across the portfolio. To do this, CSL carries out market research using estate agents and the internet to establish market rents/trends in a particular area.

9.1.3. Rent reviews are carried out on a quarterly basis.

9.1.4. Once research has been carried out, this is put into a spreadsheet (copy attached) and then put on the rent level setting file.

9.1.5. Once a property is either coming up for renewal/new let, the attached rent level setting form is completed and submitted to the Property Manager for sign off and then filed under the relevant block.

10. WESTMINSTER HOUSING CO-OPERATIVE

10.1.1. OHG offers shortlife licences to Westminster Housing Co-op for properties which are awaiting re-development or a decision on the future use of the property.

10.1.2. The charge made to WHC for a property licensed to them is discretionary. At present this is usually 50% of the OHG assured relet rent for the property, as specified in this policy.

10.1.3. The charge for each property is increased on the first Monday in April in accordance with this policy.



Appendix A: Rent restructuring

1. INTRODUCTION

- 1.1 The Government's *Rent Restructuring* regime came into effect on 1 April 2002 for general needs properties. The aim of the new approach is to bring housing association and local authority rents into line over ten years so that all social housing tenants living in the same area in the same type of property pay similar rents.
- 1.2 The Government also wants rents to be based on the value of the property and on local earnings. This means tenants living in less prosperous areas, where both property values and average earnings are lower, will pay less rent than tenants living in more prosperous areas like the South East.

2. THE SCHEME

2.1 Target rents

The Government has set a formula for calculating *target rents* (excluding service charges). The formula is in three parts:

- ◇ 70% of the target rent is based on average local earnings
- ◇ 30% of the target rent is based on property value
- ◇ a factor is applied to reflect the number of bedrooms in the property

Target rents increase each year by the Retail Price Index (RPI) + 0.5%

See para 4 below for an example of the calculation.

2.2 Rent caps

In some areas property values, and therefore target rents, are quite high, so the Government has set *caps* on target rents. The 2009/10 the rent caps are:

1 bedroom	£113.78 per week
2 bedrooms	£120.46 per week
3 bedrooms	£127.16 per week
4 bedrooms	£133.85 per week
5 bedrooms	£140.53 per week
6 or more bedrooms	£147.23 per week

Rent caps increase each year by RPI + 1%.

2.3 Convergence

Registered social landlords have 10 years to bring the rent tenants pay (excluding service charges) to the level of the *target rent* for the property they live in as at 2011, or the *rent cap* if this is lower. The maximum increase allowed is RPI + 0.5% + £2.



Subject to this, housing associations are allowed to decide their own policy for achieving convergence.

2.4 **Flexibility**

Housing associations are afforded a degree of flexibility of 5% in converging to targets rents. This means that they can aim to converge to between 95% and 105% of target rent. No flexibility is afforded in the rent cap, however, although rent caps increase at a higher rate than target rents.



Add subtotals to give target rent in 1999
£101.92

Uprate to 2003

increase by RPI +1 = 2.1%	£104.06
increase by RPI +1 = 4.3%	£108.53
increase by RPI + 0.5% = 2.2%	£110.92
increase by RPI + 0.5% = 2.2%	<u>£113.36</u>

Uplift by 5% to arrive at 105% of target rent £119.03

Rent cap for one bedroom property 2003 = £87.30

Therefore the 2003 target rent of £113.36 is capped by the 2003 rent cap of £87.30.



Appendix B: rents on Universal Housing

Initial setup

This policy requires the creation of two fields on Universal Housing:

- let rent (April to September)
- let rent (October to March)

These fields apply to properties, so they could be entered on the property or rent tables (the rent table has a one-one relationship with the property table).

Procedure

1. In August of each year, the Group Leasehold Manager provides the team in charge of the UH system with the relet rents for the following year, which are to be applied to tenancies starting from 1 October. This will be based on an estimated RPI value of 2.5%.
2. The UH team erases all data in the 'let rent (October to March)' field. Then, the new relet rents supplied are loaded into the field.
3. When, in October, the September RPI figure and the corresponding circular is released, the Group Leasehold Manager provides the UH team with the actual relet rents for the following year.
4. The UH team erases all data in both the 'let rent (October to March)' and 'let rent (April to September)' fields. The supplied relet rents are then entered both fields.
5. At the start of April, the target rents for the year (supplied by the Group Leasehold Manager) are loaded on the system (this is the uncapped target rent). This field is required for the RSR / NROSH.

Responsibility of Development – new properties

1. When the property is entered on UH, Development must enter the rents in both the 'let rent (April to September)' and 'let rent (October to March)' fields.
2. Development must also enter the 1999 valuation on UH.