

RENT SETTING POLICY

Approved: 9th June 2021

Review Date: June 2024

1. Scope

The purpose of this policy is to outline Runnymede Borough Council's approach to setting the rent charged for its Social Rent and Affordable Rent homes, including temporary accommodation and rent for shared ownership (DIYSO) properties.

This policy does not cover service charges as these are not governed by the same factors and regulation as rent, although the Council is committed to keeping service charges affordable.

2. Policy Objectives

This policy aims to provide clarity on how rent is set and increased and how the Council complies with statutory and regulatory requirements on setting Social and Affordable Rents.

3. Context

- 3.1 Rent setting is based on the Government's Policy Statement on Rents for Social Housing (2019) and the subsequent Rent Standard (2020). The Regulator of Social Housing expects Registered Providers (RPs) to comply when setting and increasing rent for their social housing stock.
- 3.2 The majority of Runnymede's social housing properties are set at Social Rent. Since 2001 rents have been set using the government's Formula rent methodology for each property. This is calculated using the relative value of the property, relative local income levels and the size of the property so that similar and regionally adjusted rents are charged for similar Social Rent properties. Formula rents are exclusive of any service charges.
- 3.3 While annual rent increases are limited to those prescribed by the guidance (see section 4 below), RPs may increase rents to formula rents on a change of tenancy.
- 3.4 In 2011, the Government introduced Affordable Rent which permits rents (inclusive of service charges) to be set at up to 80% of market rent. The aim of these higher rents was to generate income to support development of additional social homes. Properties can only be let at Affordable Rent when certain conditions apply and Runnymede Council currently has only a small number of properties where Affordable Rent is charged.
- 3.5 From April 2020 the Government has permitted annual rent increases on both Social Rent and Affordable Rent properties of up to Consumer Price

Index (CPI) plus 1 percentage point from 2020, for a period of at least five years.

4. Policy Details

- 4.1 The Council will set rents using fair and transparent calculations.
- 4.2 Rents will be set to ensure a financially viable Housing Revenue Account which can meet future spending obligations including treasury management requirements and capital investment needs within the stock.
- 4.3 The Council follows government guidance when setting the rents for its properties, see <https://www.gov.uk/government/publications/rents-guidance>. Since 2001 rents for the majority of Runnymede's properties have been let at Social Rent, based on a formula set by government. The method for calculating the Formula rent under the Government's Rent Standard is set out in the Policy Statement on Rents for Social Housing [here](#).
- 4.4 The basic 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.

 - Formula rents are exclusive of any service charges.
- 4.5 Social and Affordable rents can increase annually, subject to Member approval, by a maximum CPI + 1% in line with the Government's five year rent settlement for 2020/21 - 2024/25.
- 4.6 Government allows some flexibility to set rents at up to 5% above Formula rent and up to 10% for sheltered housing if there is a clear rationale for doing so which takes into account local circumstances and affordability. Rent for Housing Revenue Account (HRA) properties used as temporary accommodation (TA) will be set at 5% above Formula on re-let. Rents are set at 5% above Formula for the Beomonds Independent Retirement Living (IRL) scheme to reflect the modernisation and refurbishment work undertaken in 2016.

- 4.7 Rent caps apply as a maximum ceiling on the Formula rent, based on the number of bedrooms. If the Social Rent would be higher than the rent cap for a particular size of property, the rent cap will be used instead.
- 4.8 The combined rent and service charges of Affordable rents will not exceed 80% of market rents or Local Housing Allowance (LHA).
- 4.9 In line with its Tenancy Agreement, the Council will give tenants four weeks written notice of any change in the level of rent which will normally be payable from the first Monday in April.
- 4.10 If an existing property is extended to provide an additional bedroom then the rent will be revised to reflect the increased property valuation and size, using the Government's Formula rent calculation. Any increase in rent will be chargeable as soon as reasonable and practical following completion of the work.
- 4.11 Rents will be checked at each re-let to ensure property records are accurate and rent set correctly. Where rents are set at below Formula, the rent will be increased on re-let to the Formula rent.

5. Temporary Accommodation (Housing Revenue Account stock)

- 5.1 Some non secure tenancies of properties let as temporary accommodation may include service charges to reflect the additional management and maintenance costs incurred. This may result in a higher charge compared with a similar property let on a secure or fixed term tenancy.
- 5.2 The weekly charge for rooms in the two shared houses are based on Affordable Rent calculations. This is due to the works undertaken in creating additional units of accommodation, including an enhanced specification to meet Houses in Multiple Occupation responsibilities and provision of two toilets, kitchen appliances and bedroom furniture.
- 5.3 The rent for the 17 mobile homes used as temporary accommodation is set separately, in line with the appropriate legislation, and approval for rent increases is sought from Housing Committee along with other rents each January.

6. Do It Yourself Shared Ownership (DIYSO) Rents

- 6.1 The Rent Standard does not apply to shared ownership rents which are governed by the terms of the individual lease agreements, with the rent element set as a percentage of the unsold equity.

- 6.2 Rents can increase annually, subject to Member approval, by a maximum CPI + 1%.

7. Affordable Rents

- 7.1 Affordable Rents are higher than Social Rents. Properties let on Affordable Rent generate additional capacity for investment in new affordable housing. Affordable Rent may be charged in line with the agreement the Council entered into in 2011, in order to fund new housing supply without any other financial support from central government. The proposals must be detailed to MHCLG and the addresses of the properties notified to MHCLG annually.
- 7.2 Affordable Rent may also be charged in line with the agreement the Council entered into in 2012 under which homes built as part of the retained Right to Buy receipts "1-4-1" replacement programme may be let at Affordable Rent where a signed statement is provided by the Council. Only additional dwellings may count as part of the programme. The addresses of the properties must be notified to MHCLG annually.
- 7.3 In November 2016 Housing Committee gave approval for the implementation of Affordable Rents on its new build HRA properties in Englefield Green and, subject to Committee approval, for future new build properties.
- 7.4 The rent for additional HRA properties acquired to add to the Housing stock will usually be set at Affordable rent.
- 7.5 The Affordable Rent, inclusive of service charges, will not exceed 80% of market rent and will be no higher than LHA for that location. The market rent is assessed according to the individual characteristics of the property and the rent that the accommodation might reasonably be expected to achieve in the private rented sector based on property size, location, type and service provision.
- 7.6 At the end of each tenancy, including the end of Fixed Term tenancies, Affordable rents will be re-based to ensure they are no higher than 80% (including service charges) of market rents or LHA for that location.
- 7.7 Rents can be set and reviewed based on analysis of the comparable market but independent Valuation services will be procured from time-to-time to ensure that the Council does not charge rents above 80% of current market rents.

8. Monitoring and continuous improvement

- 8.1 The RSH expects all Registered Providers, including local authorities to have robust systems of internal control in place to ensure compliance with rent requirements, underpinned by high quality data which providers can use to assure themselves, their tenants, and the Regulator that rents are being charged appropriately. The Council's systems will be reviewed and the risk of error or omission assessed regularly. This policy will be reviewed in 3 years to ensure it continues to meet the stated objectives unless legislation, regulation or business needs require an earlier review.

9. Legislation and regulation

- 9.1 RPs must set rents from 1 April 2020 in accordance with the Government's Policy Statement on Rents for Social Housing 2018

[Policy statement on rents for social housing \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/424242/policy-statement-rents-social-housing-2018.pdf) (2019) and the subsequent Rent Standard (2020) [Rent Standard - April 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/rent-standard)

- 9.2 The Regulator of Social Housing requires local authorities to comply with the Rent Standard and compliance is monitored by way of regulatory returns including the annual Local Authority Data Return and Local Authority Housing Statistics.

10. Equalities

The findings of the Equality Impact Assessment screening for this policy is that rents are set and increased in line with government guidance and applied across the stock, regardless of the circumstances of individual tenants. It is therefore not considered relevant to undertake a full Equality Impact Assessment of this policy.

11. Related Strategies and documents

Tenancy Strategy (2018)

Appendix: Rent Setting Methodology

Social Rent

Rent on properties to be let at Social rent may be set at a level that is no higher than Formula rent, (subject to the rent flexibility level of up to 5 or 10%).

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.

Surrey County earnings data to be used is £333.20.

The prescribed Bedroom Weighting is:

Number of bedrooms	Bedroom Weight
Bedsit	0.8
1	0.9
2	1.0
3	1.1
4	1.2
5	1.3
6+	1.4

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 is used to adjust the 2000-01 formula rent to 2019-20 levels:

Year	RPI 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%

Different figures apply from 2016-17 to 2019 -20.

- a) The following figures will apply for the period from 2016-17 to 2019-20 in the case of **supported housing**² (except domestic violence refuge accommodation, as this is covered in (b) below):

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 rent must be adjusted annually by CPI (at September of the previous year) +1 percentage point.

Formual Rent Caps for 2019-20:

Number of Bedrooms	Rent Cap
1 and Bedsits	£144.26
2	£152.73
3	£161.22
4	£169.70

5	£178.18
6 +	£186.66

Rent Caps increase by CPI (at September of the previous year) + 1.5 percentage points, each year.

Worked example

2 bed flat with a capital value of £66,430 in January 1999.

Average rent at April 2000		£54.62
Average earnings in Surrey		£333.20
National average earnings		£316.40
Bedroom weight		1.0
National average property value in January 1999		£49,750
70% of the average rent	$70\% \times £54.62$	£38.23
Multiplied by relative county earnings	$£333.20/£316.40=1.053$ 1.053×38.23	£40.26
Multiplied by bedroom weight	$\times 1.0$	£40.26 subtotal
30% of the average rent	$30\% \times £54.62$	£16.39
Multiplied by relative property value	$66,430/49,750=1.335$ 1.335×16.39	£21.88 subtotal
Add together the sub totals		£62.14

Upated to £102.12 for 2020/21 and £103.65 for 2021/22

These rents are not higher than the corresponding rent caps so these are the rents to be charged.

Affordable Rent for new Build and acquired properties

Affordable rents will be set at 80% of the relevant market rent, inclusive of any applicable service charges, subject to the maximum Local Housing Allowance (LHA) for the property type. Where the LHA is lower than 80% of the market rent calculated the LHA rate will be charged.

Market rent will be established based on analysis of the comparable market. Independent Valuation services will be procured as needed and from time-to-time.

Affordable rents will be reviewed annually and amended in line with CPI plus 1 percentage point. CPI will be taken as at September of the previous year and subject to the maximum LHA for the property type.

In addition, Affordable rents must be re-set when a property is let to a new tenant or re-let to an existing tenant at the end of a Fixed Term Tenancy to ensure the new rent is no more than 80% of the relevant market value or LHA.

Worked Example

Newly converted 2 bed flat KT15 2DP

1. Calculated Formula rent = £102.12.
2. Comparable property currently advertised (or as advised by independent valuation) for market weekly rent of £271.15

The affordable rent calculated at 80% of the market value is
 $£271.15 \times 80\% = \text{£}216.92$ per week

Finally, the affordable rent calculated needs to be considered against the current LHA rates:

March 2021	Walton BRMA	East Thames Valley BRMA
2 bedrooms	£253.15	£230.14

Affordable rent is no higher than 80% of market rent so the rent for this 2 bed flat at KT15 2DP is **£216.92 pw.**