

# HRA Rent Setting Policy

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## 1. Introduction

- 1.1 Rent is the main source of revenue for Dover District Council's ("the Council") Housing Revenue Account (HRA). It pays for the management, maintenance, and modernisation of our existing housing stock, and is also the primary source of funds for repaying loans granted by Homes England to be used to build or acquire new council properties.
- 1.2 The Council is currently in the process of renewing its HRA Business Plan, which will set out our aspirations and strategic direction for our housing stock, explaining in detail the financial challenges faced by our HRA and the need for a reliable rental income stream to maintain our housing stock to an acceptable and decent standard, and fund a financially viable development programme.
- 1.3 This policy seeks to balance these financial pressures since the housing market in the Dover District is unaffordable for many households.

## 2. Definitions

- 2.1 For the purposes of this Policy:
  - 'We', 'ours' and 'us' refers to Dover District Council ("the Council")
  - 'The Policy' refers to this HRA Rent Setting Policy
  - 'The Policy Statement' refers to the Policy Statement on Rents for Social Housing February 2019 issued by the Secretary of State
  - 'The Rent Standard' refers to the 2023 Rent Standard issued by the Regulator of Social housing ("the Regulator") and any subsequent amendments in legislation, regulation, or guidance
  - 'Formula Rent' refers to the calculation as set out in The Rent Standard
  - The 'Local Housing Allowance' rate refers to the maximum amount of housing benefit that a private renter can claim to help pay their rent.

## 3. Purpose and scope

- 3.1 This Policy explains how the Council will calculate and charge:
  - rent for all residential properties within our HRA; and
  - service charges where these are applicable.

The Policy will also cover the factors involved in making these decisions.

3.2 The purpose of this Policy is to:

- Ensure that the Council adheres to current government legislation and regulation when setting and agreeing rents.
- Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA.
- Provide as much financial certainty for the HRA as possible.
- Maximise the income available to maintain our existing housing stock and to construct or acquire new homes.
- Support the delivery of the emerging HRA Business Plan.

3.3 The policy applies to all properties and assets that are accounted for in the HRA, including:

- Rented residential accommodation; and
- Service charges for HRA rented accommodation.

The policy does not cover:

- Rents and service charges for General Fund residential properties, such as Shared Ownership.
- Ground rents and service charges for leasehold residential accommodation.
- Garages; and
- Shops and commercial premises.

## **4. Rent policy background**

4.1 Since 2012, rents for properties let at Social Rent (all the rented homes in the HRA as of 31 March 2020) have been based on a formula rent set by the government. This creates a 'formula rent' for each property, which takes account of the relative value of the property, relative local income levels, and the size of the property. A principle aim of this formula-based approach is to ensure that similar rents are charged for similar properties. Throughout this policy the term 'Formula Rent' is used for consistency and to avoid confusion.

4.2 In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of the market rent (inclusive of service charges). The introduction of Affordable Rent was intended to fund the construction of more new affordable housing at sub-market rent. Landlords can only let new properties at Affordable Rent where certain conditions apply. Existing vacant properties may be converted from Formula Rent to Affordable Rent in certain circumstances.

4.3 From April 2015, the government made it possible for social landlords to charge a full market rent where a social tenant household has an annual income of at

least £60,000. This was designed to allow landlords to make better use of their housing stock, rather than requiring them to provide sub-market rent properties to households with relatively high incomes.

- 4.4 Government policy has also limited maximum annual changes to Formula Rent and Affordable Rent levels. The Welfare Reform and Work Act 2016 introduced a requirement of social landlords to reduce rents by 1% each year for four years. The measure was forecast to save £1.4 billion by 2020/21, primarily in reduced Housing Benefit expenditure and social housing tenants were expected to benefit by approximately £700 per year (as of 2015). However, the measures introduced had a significantly negative impact on the financial health of the HRA and made it more challenging for DDC to invest in our current housing stock and build or acquire additional affordable housing.
- 4.5 In October 2017, the government announced its intention to set a rent regime for local authority landlords and registered providers of social housing that permitted annual increase of Formula Rent and Affordable Rents of up to the Consumer Price Index (CPI) + 1% from April 2020, for a period of at least five years ('the new policy'). It did not override landlords' statutory obligation to complete the four-year rent reduction required by the Welfare Reform and Work Act 2016.
- 4.6 The new policy recognises the need for a stable financial environment to support the delivery of new council homes. It provides a degree of reassurance for financial planning in the short term, but no clarity thereafter. It also does not allow DDC to recover the increases forgone in previous years.
- 4.7 To control this new settlement, rather than legislate, the then Secretary of State for Housing, Communities and Local Government (now the Department for Levelling-Up, Housing and Communities) required the Regulator of Social Housing (RSH) to prepare a new Rent Standard to apply from 2020 to all Registered Providers of social housing, including local authorities.
- 4.8 From 1 April 2020, Registered Providers of Social Housing, including Local Authorities, must comply in full with all the requirements and expectation set out in the Rent Standard. They must also comply with the *Policy Statement on Rents for Social Housing 2019* on the setting, increase and decrease of rents and service charges.
- 4.9 The Autumn Statement 2022 announced rent increases would be capped at 7% after the conclusion of the Government's consultation regarding the introduction of a rent ceiling from 1 April 2023 to 31 March 2024. The cap is believed to strike a balance between shielding current social tenants (the cap does not apply to new social tenants) from inflationary increase to their rents (which at one point reached as high as 11%) and registered providers ability to manage the impact to their own finances as well as investment in new affordable housing. DLUHC have confirmed that the cap will only be in place for the 2023/24 financial year (FY).

## **5. Legislation, regulation and guidance**

5.1 This policy is informed by several key pieces of legislation, regulations, and guidance. These are:

- The Housing Act 1985 (Section 24)
- The Landlord and Tenant Act 1985
- Local Government and Housing Act 1989
- Housing and Regeneration Act 2008 (Section 197(a))
- The Health and Social Care Act 2012
- Guidance on rents for social housing – Department for Communities and Local Government, May 2014
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016
- Welfare Reforms and Work Act 2016
- Direction on the Rent Standard 2019
- Policy Statement on Rents for Social Housing issued by the Secretary of State February 2019
- Rent Standard Guidance 2020 – Department of Levelling-Up, Housing and Communities
- Rent Standard 2023 – Regulator of Social Housing

## **6. Related documents**

6.1 The following documents relate to and have informed this policy:

- Housing Revenue Account (HRA) Business Plan & Budget
- Tenancy Strategy 2021 – 2026
- Tenancy Management Policy
- Tenancy Agreement
- Income Recovery Policy

## **7. Policy statements**

### **Summary**

7.1 The Council sets rents for residential accommodation in the HRA in accordance with the Policy Statement and the Rent Standard. In summary, the key points of this policy are:

1. From 1 April 2023 until 31 March 2024, existing council tenancies will be let at the capped rent rate of 7 %. All new council tenancies granted during this period will be charged at CPI +1%.
2. From 1 April 2024 all council tenancies, existing and new, will be let at the rent rate of CPI+1%, or in accordance with any rent cap or decision introduced by Government policy and / or legislation.
3. All existing supported housing, including sheltered housing and other accommodation designated for older people, that becomes vacant and available for re-let will be let at formula rent. Rent flexibility will not be applied to this type of housing.
4. The Council will enter into agreements with Homes England to build new homes at Affordable Rent to help fund the construction of new council housing.
5. Affordable rents are charged at the Local Housing Allowance (LHA) rate, or 80% of the market value of the property, whichever is lower.
6. All other existing general needs dwellings that become vacant and available for re-let, and all newly built or acquired general needs dwellings that are not let at affordable rent will be at Formula Rent + 5% rent flexibility (as provided for under the Rent Standard) from 2023/24 onwards to boost the funds for planned maintenance on the existing stock and to contribute towards a programme to build and / or acquire new council homes.

## Formula rent

### Overview

7.2 This section applies to all residential accommodation let at formula rent. This means all low-cost rental accommodation except:

- Accommodation let at affordable rent
- Rents for social tenants with high incomes
- Shared ownership properties
- Accommodation let at intermediate rent
- Specialised supported housing
- Relevant local authority accommodation
- Student accommodation
- PFI social housing
- Temporary housing
- Care homes

7.3 These exemptions are defined in the Policy Statement.

7.4 Formula Rents are exclusive of any services charges.

#### Calculating formula rent

7.5 The basis for the calculation of Formula Rent is:

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

'National rent' refers to the national (England) average rent in April 2000.

'Relative county earnings' refer to the average manual earning for the county in which the property is located divided by the national average manual earnings, both at 1999 levels.

'Relative property value' refers to an individual property's value divided by the national (England) average property value, as at January 1999 prices.

7.6 Putting the relevant information into the above formula gives the formula rent for 2000/01 for the property, which must then be uprated, for each year, using the relevant uplift. The relevant information and annual uplift is contained in the Policy Statement. This is amended from time to time and the Council will always adhere to the most current edition.

7.7 If the rent for a property that becomes vacant is below Formula Rent, it will be recalculated at the Formula Rent level from 2020/21 onwards.

#### Changes to rents

7.8 Formula rents usually increase by Consumer Price Index (CPI) +1% each year for a period of five years. The CPI is determined by taking the CPI at September of the previous year.

## Rent caps

- 7.9 Formula Rent is subject to a rent cap based on the number of bedrooms in a property. If Formula Rent would be higher than the rent cap for a particular property, the rent cap is used instead. Rent caps are set by central Government and are subject to change.
- 7.10 Where a property whose rent has been subject to the rent cap comes up for re-let (and Formula Rent remains above the rent cap), the new rent will be set up to the rent cap level.

## Rent flexibility

- 7.11 The Council has limited discretion over rent levels for individual properties but can take account of local factors and concerns, in consultation with tenants. This provides flexibility to set rents at up to 5% above Formula Rent for general needs properties and at up to 10% for supported housing. This is referred to as rent flexibility.
- 7.12 All supported housing that becomes vacant and available for re-let will be let at Formula Rent. Rent flexibility will not be applied to supported housing, including sheltered housing and other accommodation designated for older people. The rationale for this decision is to avoid deterring older households from moving out of larger family homes and because some of this accommodation may be less popular and more difficult to let.
- 7.13 The rent for an occupied property which exceeds the rent flexibility level, but is below the rent cap, will increase by no more than the CPI each year until the rent is brought within the rent flexibility level for general needs properties and within the Formula Rent level for supported accommodation.
- 7.14 The rent for a general needs property which exceeds the rent flexibility level will be reduced to Formula Rent plus the rent flexibility level when the property is re-let. The rent for supported accommodation that exceeds Formula Rent is reduced to Formula Rent when it is re-let.

## Conversion of social rent properties

- 7.15 The Council cannot convert a property charged at Formula Rent to the following rent types:
- Affordable Rent (except where we have an agreement by Homes England or the Secretary of State and under the terms set out in the definition of affordable rent in paragraph 3.3 of the Policy Statement on Rents for Social Housing);
  - Market rent (unless a household has an income of at least £60,000 per year or more (see 6.28 onwards); or



- Intermediate Rent

## Affordable rents

### Overview

- 7.16 Affordable Rent properties are accommodation which Homes England or the Secretary of State have agreed can be let at an Affordable Rent (including service charges). They are exempt from Formula Rent requirements set out in the previous section of this policy.
- 7.17 Affordable Rents are higher than Formula Rents. The Council will enter into agreements with Homes England to build new homes at Affordable Rent to help fund investment in new affordable housing owned by the Council.

### Calculating affordable rent

- 7.18 Affordable Rent must not exceed 80% of gross market rent (including applicable service charges). Gross market rent is the rent the property would reasonably be expected to let for in the private sector. Factors including property size, location type and service provision will be considered when the gross market rent is determined.
- 7.19 Affordable Rents charged by the Council will not exceed either 80% of gross market rent or the LHA rate for the Broad Rental Market Area (BRMA) in which the property is situated. The Affordable Rent will be the lower of these two figures but will be no lower than the potential Formula Rent for the property.
- 7.20 DDC will comply with the terms of any agreements with Homes England or the Secretary of State when setting Affordable Rents.

### Property valuations

- 7.21 Valuations for initial rent setting will be made in accordance with a method recognised by the Royal Institution of Chartered Surveyors (RICS) in the 'Royal Institution of Chartered Surveyors – Professional Standards' (known as the 'Red Book'), and the Policy Statement.
- 7.22 When tenancies come up for re-issue or re-let, the Council will seek adequate comparable rents to re-set rents using a desktop valuation review of recent transactions. If comparable rents are not readily available, the Council will commission a full valuation to determine them.

## Changes to rents

- 7.23 The Council will not increase Affordable Rents by more than CPI +1%, or by any cap introduced by Government as part of the national rent policy. CPI will be taken as of September of the previous year.
- 7.24 For rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, rent increases will not exceed the 7% ceiling set by Government. All rent from 1 April 2024 onwards will adhere to the Government guidance set at the time.

## Re-setting affordable rent

- 7.25 When a tenancy of an Affordable Rented dwelling is let to a new tenant or re-let to an existing tenant, the Council will re-set the rent based on a new valuation to ensure that the new rent does not exceed more than 80% of the relevant market rent, or the relevant LHA rate. The Affordable Rent will be set at the lower of these two figures.
- 7.26 If the accommodation is re-let to the same tenant due to an introductory tenancy coming to an end, the rent will not be re-set.
- 7.27 If the Council is re-setting the rent due to re-letting an Affordable Rented property to the existing tenant of that property, we will not increase the rent by more than CPI + 1% or by whatever cap or guidance is set by Government at the time of the decision.

## Conversion of affordable rent properties

- 7.28 A property charged at Affordable Rent cannot be converted (including when they are re-let) to:
- Market rent, (unless a household has an income of at least £60,000 per year or more (see 6.28 onwards); or
  - Intermediate rent

## Service charges

### Overview

- 7.29 Service charges are variable charges payable for services, repairs, maintenance, improvements, or insurance, or the Council's costs of management in respect of a dwelling, usually for services provided in blocks of council-owned flats, often for communal facilities and shared areas.

- 7.30 The Council has adopted the principle of recovering the actual costs of services for many years. An Income Recovery policy was adopted in 2020 to support with the maximising of income and the collection of outstanding service charges.
- 7.31 Service charges are not governed by the same factors as rent, although the Policy Statement on Rents for Social Housing encourages registered providers of social housing, including local authorities, to keep service charge increases to within CPI +1% (or 7% in 2023/24) to keep charges affordable.

### Calculating service charges

- 7.32 In calculating services charges, the Council will:
- Set reasonable and transparent service charges which reflect the service being provided to tenants.
  - Ensure that the services and works are of a reasonable standard.
  - Base service charges on actual expenditure for the preceding financial year (where reasonably possible).
  - Supply tenant with clear information on how service charges are set.
  - Identify service charges separately from the rent charge.
  - Consult with tenants where a new or extended services are introduced, and an additional charge may need to be made.
  - Establish and implement an Asset Management Strategy and Planned Maintenance Delivery Programme to enable service charges for leaseholders to be levied in advance, if appropriate. This will help leaseholders to budget for major items of expenditure.
  - Only raise service charges by CPI +1% up to a further £1 per week if they are less than actual expenditure.
  - Reduce the service charge accordingly where the actual expenditure is less than the current charge.

### Rent and service charge period

- 7.33 The average weekly rent is calculated on DDC's annual rent cycle of 52 weeks in a financial year (or 53 weeks in some financial years).

### Rent variation: timing, roles, responsibilities and authority

- 7.34 The Council varies rent and service charges annually, normally at the beginning of the financial year in April. Tenants receive at least 4-weeks' notice in writing of any changes to their rent or service charges and the reasons for the changes (please see 5.2.1 & 5.5 of the Tenancy Agreement).

- 7.35 The yearly change to rental and service charges is part of our budget setting process and the Medium-Term Financial Plan (MTFP), which is a decision made by Full Council.

## **8. Consultations**

- 8.1 The draft HRA Revenue and Capital Budget, including proposals to change rents and service charges, is available to the public for consultation as part of the wider budget consultation.
- 8.2 Any consultations with tenants on proposed changes to rent or service charges will be conducted in accordance with the Council's [Tenant Engagement Strategy](#).

## **9. Implementation, monitoring, and review**

- 9.1 Performance of rental income collection is monitored and reported on a quarterly basis.
- 9.2 This Policy will be reviewed every 3 years and will be amended as necessary to comply with any new legislation, regulations or changes to the legislative and regulatory framework or significant change to the benefits system.

## **10. Equality, diversity, and inclusion**

- 10.1 DDC is committed to promoting equality of opportunity and to eliminating unlawful discrimination on the grounds of race, age, disability, gender, sexual orientation, religion, belief, financial status, and any other difference that can lead to discrimination or unfair treatment considering the principles of the Equality Act 2010. Please see our [Equality Policy](#) for more details
- 10.2 A full Equality Impact Assessment (EIA) was conducted for this policy in accordance with our Public Sector Equality Duty (PSED) when carrying out our duties (S149 of Equality Act 2010), and mitigations put into place where potential negative impacts to individuals with protected characteristic were identified.

## 11. Version controls

	Date required	Completed	Completed by
<b>Policy adopted</b>	n/a		Rachel Collins, Head of Housing  Perry DeSouza, Housing Policy Officer
<b>Review required</b>			
<b>Review required</b>			
<b>Review required</b>			
<b>Review required</b>			