

## Somerset West and Taunton Council

## Housing Revenue Account Rent Setting Policy from April 2020

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## **Glossary of terms**

### **Affordable rent**

A tenure introduced by the Government to charge rents up to 80% of market rates, inclusive of service charges.

### **Consumer price index**

A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

### **Housing Revenue Account**

A ring fenced account held by local authorities funded by rents to provide landlord services.

### **Market rent**

The amount of rent that can be expected for the use of a property, in comparison with similar properties in the same area, calculated using the Royal Institution of Chartered Surveyors approved valuation methods.

### **Shared ownership**

Part rent/ part buy housing schemes.

### **Social formula rate**

A formula to enable social landlords to set rents at a level that allows them to meet their obligations to their tenants, maintain their stock and continue to function as financially viable organisation. The formula-based approach is to ensure that similar rents are paid for similar social rent properties. The basis for the calculation of a social formula rate rent is:

- 30% of a property's rent is based on relative property values;
- 70% of a property's rent is based on relative local earnings; and
- A bedroom factor is applied so that, other things being equal, smaller properties have lower rents.

### Rent caps

A maximum ceiling on the social formula rate rent set by Government.

Rent caps apply as a maximum ceiling on the social formula rate rent, and depend on the size of the property. Where the formula rate rent would be higher than the rent cap, the rent cap will be used instead.

The formula rate rent caps for 2019/20 have been set by Government and will increase by CPI (at September of the previous year) plus 1.5% each year.

In the case of an existing tenant whose social formula rate rent is above the rent cap the property will continue to be governed by the CPI plus 1% annual rent change. However, where such a property comes up for re-let, the new rent will be set at up to the rent cap level.

### Rent flexibility level

Flexibility to set rents at up to 5% above social formula rate rent on general needs housing and up to 10% for sheltered and supported housing. In applying the flexibility a housing provider should ensure there is a clear rationale for doing so which takes into account local circumstances and affordability.

### Social Rent Existing Tenant (incl. Social Rent Existing Tenant – varied agreement)

Individual(s) who became council tenant(s) on or prior to 31<sup>st</sup> March 2020 or who became council tenant(s) as a result of an assignment (including all approved mutual exchanges) or succession to a tenancy of a property let by the Council, where the original tenancy being assigned or succeeded to commenced on or before 31<sup>st</sup> March 2020 (even where such assignment or succession occurs after 1<sup>st</sup> April 2020) or who were council tenants on or prior to 31<sup>st</sup> March 2020 but who subsequently take an assignment of a tenancy which commenced on or after 1<sup>st</sup> April 2020..

### Social Rent New Tenant

Individual(s) who become council tenant(s) on or after 1<sup>st</sup> April 2020 or who take an assignment of (including all approved mutual exchanges) or succeed to a tenancy of a property owned and let by the Council where such tenancy commenced on or after 1<sup>st</sup> April 2020.

### Affordable Rent Existing Tenant (incl. Affordable Rent Existing Tenant – varied agreement)

Individual(s) who are council tenant(s) prior to 1<sup>st</sup> April 2020 of a specific property where affordable rent has already been set or who become a council tenant(s) as a result of taking an assignment of (including all approved mutual exchanges) or succession to a tenancy where affordable rent has been set by the Council, where the original tenancy being assigned or succeeded to commenced on or before 31<sup>st</sup> March 2020 (even where such assignment or succession occurs after 1<sup>st</sup> April 2020)

### Affordable Rent New Tenant

Individual(s) who on or after 1<sup>st</sup> April 2020 become council tenant(s) of a specific property where affordable rent has been set by the Council or who take an assignment of or succeed to a tenancy of a property where an affordable rent was set by the Council on or after 1<sup>st</sup> April 2020.

## 1.0 **Introduction**

This policy sets out how Somerset West and Taunton (the Council) will calculate and charge rent from April 2020 for its Housing Revenue Account (HRA) owned properties and also complies with the Rent Standard April 2020 (part of the regulatory framework for social housing in England).

The purpose of this rent setting policy is to:

- Ensure that the setting and management of rents is clear and easy to understand;
- Ensure that the Council adheres to legislation and regulations when setting rents for HRA properties;
- Help the Council to plan for future investment in services, existing housing stock and new build properties;
- Establish how rents are varied annually; and
- Ensure that all tenants are made aware of the weekly rent payment due to the Council in respect of their property both at the beginning of their tenancy and when it is reviewed in April every year.

The Council strives to ensure that its rents are affordable to tenants, while raising sufficient funds to manage and maintain its properties to a high standard, build new properties, deliver relevant services, and meet the commitments of the HRA Business Plan, within constraints of government policy.

Formula social rents at the Council are significantly below local market rents and also lower than other social rent categories, such as local housing association rents.

Within the Somerset West and Taunton area 4,408 (at 07/11/19) households have applied and are waiting for housing on the Council's register for accommodation (Homefinder Somerset – Choice Based Lettings Scheme). Between 1 January and 30 October 2019 a total of 119,112 bids for accommodation were placed by 7,801 households on homes across Somerset. Since 2012 the Council has proven its capability to deliver more housing, with 108 new build homes and over 50 acquisitions to date. The Council's plan is to continue to invest in building more new homes i.e. to deliver over a 1000 new homes over the next 30 years, the life of the HRA business plan period, through a range of housing options.

The Council has the highest levels deprivation across its area with 8 of its neighbourhoods being in the 20% most deprived, 3 of which are within the most deprived 10% (Source: Indices of Multiple Deprivation 2019). More than 21% of its tenant households are living with a disability (Source: Somerset West and Taunton Council satisfaction survey 2018) and 59% of the Council's tenant households are in receipt of help with their housing costs. It is therefore vital that the Council is can continue to prioritise investment in services, such

as tenancy and community sustainment and property adaptations for the disabled.

With 22% of the Council's housing stock being non-traditional construction the Council recognises the need to address issues, such as affordable warmth, through investment in its homes, as well as the need to invest in more modern new supply that will also contribute towards addressing significant local housing demand.

The Council will take a reasonable approach to applying rent flexibility to individual properties on the basis of the priorities for an areas or neighbourhood.

It is within the above context that the Council considers its approach to maximising the use of rent flexibility for general needs, sheltered and supported housing being a justifiable approach to take. Furthermore, it is considered that the above approach is consistent with the requirements of the Rent Standard 2020 and sets a clear rationale for the application of the flexibility criteria. The Council will produce clear operational guidance to support its officers in applying its rent setting policy.

It is the responsibility of the Council to review and adjust HRA rents on an annual basis and this forms part of the Council's budget and policy framework.

The Director of Housing has responsibility for ensuring that all associated processes are followed, including compliance with legislation and directions from Government on the setting of rents. This responsibility is delegated to appropriate officers in the housing service.

This policy does not apply to service charges that contribute to the overall charge for a property. These service charges are calculated separately.

This policy does not apply to certain categories of property in the Council's HRA. These exempt categories of property are:

- Temporary social housing; and
- Shared ownership housing.

Note: The Council part owns a small number of shared ownership properties. Rents on these properties are, and will continue to be governed by rental agreements with tenants, specific to their properties.

## **2.0 Background information**

In 2016 Government required councils to reduce rents by 1% against the 2015 levels for 4 years (part of the Welfare Reform and Work Act 2016). For the Council, this step essentially removed £185M from its 30 year Housing Revenue Account business plan.

From 2020 Government has restored the rent policy and regulatory arrangements that were in place before the 2016 rent reduction came into effect.

The Regulator of Social Housing's new Rent Standard from April 2020 reverts back to the original social formula rate for a period of 5 years. All affordable rate rents are to be reviewed annually with any increases set so as not to exceed a limit of Consumer Price Index (CPI) plus 1%.

### **3.0 Types of rent**

The Council operates two rent types for its social accommodation under this policy:

- Social rent is set with reference to the social formula rate; and
- Affordable rent is set at a proportion of the market rate.

### **3.1 The new Rent Standard - 2020 limit**

In the year following the end of the social rent reduction period i.e. 2020/21 the maximum weekly rent for an existing tenant is the 2020 limit. In the 4 years that follow i.e. years 2 – 5 formula rates will be applied. The formula for calculating the 2020 limit applies to both social rent and affordable rent housing.

The “2020 limit” means the amount that is found by:

- a. Determining the average weekly rent for the tenant's accommodation in the fourth relevant year specified in section 23(6) of the Welfare Reform and Work Act 2016, and
- b. Increasing that amount by CPI + 1%
- c. In the above paragraph an “average weekly rent” means:
  - i. In a case where the weekly rent changes because the accommodation is re-let after the start of the fourth year, the weekly rent payable by that tenant for that accommodation in respect of the most recent period for which rent was payable at that changed rate provided that that change complies with the requirements of the of the social housing provisions of the Welfare Reform and Work Act 2016 and any Regulations made under those provisions; or
  - ii. In any other case, the average weekly rent payable by the tenant of that accommodation in respect of the fourth year.

### 3.2 Social rent

- Social Rent Existing Tenant (incl. Social Rent Existing Tenant – varied agreement)

In accordance with the measures set out in the Government's Direction on the Rent Standard (Feb 2019), the Government's policy statement on rents for social housing (Feb 2019) and the Regulator of Social Housing's Rent Standard 2020, social rents for existing tenancies will be reviewed annually. Any increases will not exceed the limit of Consumer Price Index (CPI) plus 1% from April 2020 up to the year 2025. The social rent will be subject to a rent cap.

The Council has further decided that rent flexibility (detailed below) will not apply to Social Rent Existing Tenants of the Council who enter into new tenancies with the Council after 1<sup>st</sup> April 2020.

This decision will also apply to assignments and successions where the tenancies being assigned or succeeded to commenced prior to 1<sup>st</sup> April 2020 and to assignments to Social Rent Existing Tenants of tenancies commenced on or after 1<sup>st</sup> April 2020.

By acting in this way the Council is granting protections to Social Rent Existing Tenants, after consultation, beyond the protections offered to existing tenants envisaged by Parliament and the Regulator.

- Social Rent New Tenant

When a social rent property is let to a new tenant on or after 1<sup>st</sup> April 2020, the rent will be set at the social rent formula rate level, exclusive of any service charges and may include an upward tolerance i.e. rent flexibility, subject to a rent cap (see below).

- Rent flexibility level

The Rent Standard April 2020 allows an upward tolerance on individual social formula rate rents of 5% on general needs and 10% on sheltered and supported housing. This is the limit of the rent flexibility level.

We will apply this flexibility in full. Our social formula rate rents will be 5% higher for general needs and 10% higher for sheltered and supported housing than the level established under the prescribed calculation, provided always that the Council reserves the right where an individual(s) demonstrates exceptional hardship, financial and/or otherwise, to exercise the discretion granted and waive the imposition of the rent flexibility level.

We have consulted with our Tenants' Strategic Board and ensured there is a clear rationale for doing so which takes into account local circumstances and affordability.

A copy of the record of the consultation can be found in Appendix 1.

If the rent for a property of an existing tenant exceeds the rent flexibility level, the existing tenant's rent will be governed by an increase of not more than CPI in any year. Where such a property comes up for re-let, the new rent will not exceed social formula rate (plus the rent flexibility level – if applied).

If a Social Rent New Tenant takes an assignment of a tenancy which commenced on or before 31<sup>st</sup> March 2020, that Social Rent New Tenant will become a Social Rent Existing Tenant.

- Annual Rent Review

Social rents will be reviewed and adjusted annually during the course of a tenancy and will be in line with Government policy on rents for social housing.

### **3.3 Affordable rent**

- Affordable Rent Existing Tenant (incl. Affordable Rent Existing Tenant - varied agreement)

In accordance with the measures set out in the Government's Direction on the Rent Standard (Feb 2019), the Government's policy statement on rents for social housing (Feb 2019) and the Regulator of Social Housing's Rent Standard 2020, affordable rents for existing tenants will be reviewed annually and any increases will not exceed the limit of CPI +1% from April 2020 up to the year 2025.

Note:

This provision will also apply to an individual(s) who becomes a council tenant(s) as a result of an assignment (including all approved mutual exchanges) or succession to a tenancy where affordable rent has been set by the Council, where the original tenancy being assigned or succeeded to commenced on or before 31<sup>st</sup> March 2020 (even where such assignment or succession occurs after 1<sup>st</sup> April 2020).

If an Affordable Rent Existing Tenant(s) leaves the specific property where the affordable rent has been set for any other reason, that tenant(s) will immediately become either a Social Rent Existing Tenant or an Affordable Rent New Tenant if they accept a tenancy of another property owned by the Council.

- New Property

The Council wishes to retain flexibility over setting affordable or social rents to ensure homes are truly affordable to those in housing need whilst ensuring new housing schemes are financially viable.

The Council has the option to charge an affordable rent for all new build properties. Affordable rents are set at up to 80% of the market rate inclusive of service charges. Affordable rents need to be periodically rebased to ensure they continue to reflect the market rent.

The market rate will vary from property to property, but cannot exceed 80% of the equivalent market rent for the property. In determining the market rate, we will consider affordability in the local area and viability of any new build housing schemes. The market rate will typically range between 60% and 80%.

We will not set an affordable rent at a level lower than the equivalent social rent, exclusive of service charges, for the property. If the social formula rent is higher than 80% of the weekly market rent (inclusive of service charges) for the tenant's accommodation, the maximum weekly rent is social formula rent, and would be exclusive of service charges.

Any decision to apply an affordable rent at less than 80% of market rate will be made after completion of an affordability and viability review and will be subject to approval by the Director of Housing.

We will not set the combined rent and eligible service charge for an affordable rent at a level higher than the relevant local housing allowance for the property.

- Affordable Rent New Tenant

The Council will rebase the affordable rent, using a new market valuation, when letting a property to a new tenant. Thus ensuring that the property continues to reflect the market rent.

The Council may change the market rate percentage. This requirement, which overrides the annual rent increase limit, is designed to ensure that the rent set at the beginning of each new tenancy is no higher than 80% of the market rent.

We will not set an affordable rent for a new tenant at a level lower than the equivalent social rent, exclusive of service charges, for the property. If the social formula rent is higher than 80% of the weekly market rent (inclusive of service charges) for the new tenant's accommodation, the maximum weekly rent is social formula rent, and would be exclusive of service charges.

Any decision to apply an affordable rent at less than 80% of market rate will be made after completion of an affordability and viability review and will be subject to approval by the Director of Housing.

We will not set the combined rent and eligible service charge for an affordable rent at a level higher than the relevant Local Housing Allowance rates for the property.

If an Affordable Rent New Tenant(s) leaves the specific property where the affordable rent has been set, that tenant(s) will immediately become either a Social Rent New Tenant or a further Affordable Rent New Tenant if they accept a tenancy of another property owned by the Council except where there is a mutual exchange with an Affordable Rent Existing Tenant, in which case the Affordable Rent New Tenant will become an Affordable Rent Existing Tenant.

- **Annual Rent Review**

Affordable rents will change in the course of the tenancy in line with the annual rent charge determined by Government. Rents will not be rebased or refactored during the tenancy term.

#### **4.0 Garages**

Garage rents are not subject to central government directives. The Council will set the rental charge of garages annually; this will be approved at Full Council under a separate reporting cycle.

#### **5.0 Pay to stay**

The Council has the discretion to charge higher income social tenants a rent equivalent to full market rent; this model is known as Pay-to-Stay. The Council does not currently operate nor wish to implement the model.

#### **6.0 Notification to tenants**

The Council will set rents annually by giving tenants at least 28 calendar days notification of a variation to their rent charge. This is in accordance with the terms of their tenancy agreement and legislation.

The Council will record rent data on its housing management system. All of the Council's key performance indicators related to rent will be closely monitored and reported against routinely through the Council's performance management framework.

#### **7.0 Notification to the Regulator of Social Housing**

The Council will communicate with the Regulator in an accurate and timely manner providing all data and information required in respect of compliance with the Rent Standard 2020.

## **8.0 Review of this policy**

This policy will be reviewed in five years, unless legislative or regulatory changes require an earlier review. It is envisaged that the next review will be carried out for the 2024/25 rent year.

## **References**

### **Legislation and Guidance:**

- Secretary of State for Housing, Communities and Local Government – The Direction on the Rent Standard. Feb 2019 (final form).
- Ministry of Housing Communities and Local Government: Policy statement on rents for social housing. Feb 2019 (final form).
- Regulator of Social Housing Rent Standard. April 2020 (Decision statement).

## **Appendix 1**

### **Record of the consultation with our tenants on the new rent setting policy**

The government's policy statement on rents for social housing recognises that registered housing providers should have some discretion over the rent set for individual properties, to take account of local factors and concerns, in consultation with tenants. As a result, the policy statement contains flexibility for registered housing providers to set rents at up to 5% above formula rent for general needs housing (10% for sheltered/supported housing). If applying this flexibility, registered housing providers should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.

Somerset West and Taunton's new rent setting policy states that it will apply this flexibility in full and our social formula rate rents will be 5% higher for general needs and 10% higher for sheltered and supported housing than the level established under the prescribed calculation.

The Council has an increasingly important role to play in housing and having the necessary rental income with which to maintain and manage existing homes, support the delivery of new homes and invest in a range of enabling activities will be a great benefit to the Council, its tenants and local communities.

The Council's use of rental income is subject to the Housing Revenue Account (HRA) ring fence which prevents council rents from subsidising council tax and the council's General Fund. The rental income generated through the Somerset West and Taunton Council's new rent setting policy is to be used to invest in the delivery of its future plan:

- **Invest in building more desperately needed new homes:**

We will deliver over 1000 new homes over the next 30 years through a range of housing options to support our vision.

Within the Somerset West and Taunton area 4,408 (at 07/11/19) households have applied and are waiting for housing on the Council's register for accommodation (Homefinder Somerset), representing 40% of total applicants registered. Between 1 January and 30 October 2019 a total of 119,112 bids for accommodation were placed by 7,801 households on homes across Somerset. For the Somerset West and Taunton area, of the 141 homes advertised during July to September 2019, the average number of bids received per property was 82. The highest number of bids received 296 was for a 1 bed bungalow in the centre of Taunton.

- **Make significant investment into carrying out major repairs and improvements to existing homes:**

We will be making significant investments to provide energy efficient housing for our tenants that are both affordable and warm to live in.

Recognising the importance of decent accessible homes for people with support needs we will enhance our current sheltered housing stock so that people living in their homes are safe and well. We will invest in disabled adaptations to support people to remain living in their home. Such works will aid the viability of our existing sheltered housing schemes.

- Invest in activities that support tenants and communities:

To help tenants sustain their tenancies we will continue to invest in improving access to debt and welfare benefit advice, employment and training.

To prevent tenancy breakdown and promote independent living we will continue to invest in mental health and well-being support services.

Where we have council housing we will invest in a range of local projects and groups that have a positive impact, enabling our tenants and communities to thrive.

Somerset West and Taunton Council's Tenants' Strategic Board at their meeting on the 15<sup>th</sup> January 2020 were consulted on the Council's new vision for housing and more specifically on applying the new Rent Standard including rent flexibility to individual social formula rents. The Board were provided with a table of information on the amounts of increases, with comparisons being made with other rents available in the local area. Information on the Local Housing Allowance rates was also provided.

At their meeting on the 15<sup>th</sup> January 2020 the Tenants' Strategic Board approved the Council's proposed policy on rents and the application of rent flexibility levels to social formula rate rents subject to the following:

- That rent flexibility will not apply to Social Rent Existing Tenants of the Council who enter into new tenancies with the Council after 1<sup>st</sup> April 2020; and
- This decision will also apply to assignments and successions where the tenancies being assigned or succeeded to commenced prior to 1<sup>st</sup> April 2020 and to assignments to Social Rent Existing Tenants of tenancies commenced on or after 1<sup>st</sup> April 2020.