

# Rent Policy

**April 2022**

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<b>Policy author</b>	Head of Rent Accounting	
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## Version Control

**Guidance:** When a document has undergone **major changes** requiring approval, the version number must change – e.g. from V1.0 to V2.0. When a document has undergone **minor changes**, not requiring approval, only the number after the decimal point must change – e.g. from V1.1 to V1.2. When a document is reviewed but no changes are made, the number after the decimal point must still change.

<b>Date</b>	<b>Reviewed by (name and title)</b>	<b>New version number</b>	<b>Summary of changes</b>
25/01/21	Michael Thorne – Research & Policy Analyst	V1.0	Update with basis for annual rent review for 2021/22
25/01/22	Gabriel Yeboah Head of Rent Accounting	V1.1	Update with basis for annual rent review for 2022/23

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## 1. Introduction

1.1. The aim of this policy is to explain in clear and accessible terms how Network Homes sets rents and the reasons for our approach. More technical and procedural details can be found in the Rent Control Manual. Details concerning service charges are set out in the Service Charge Policy.

## 2. Determinants of rent setting

2.1 The main official document which determines how we set our rents is the Department for Levelling Up and Housing and Communities (DLUHC - Formerly known and referred to as MHCLG) '[Policy statement on rents for social housing](#)' (February 2019) (here called 'the Policy Statement'). The Regulator of Social Housing introduced 'The Rent Standard' in April 2020 which require we set rents in line with the Policy Statement. For 2022/23 we will set rents in line with The Rent Standard and Policy Statement published as below.

[Limit on annual rent increases 2022-23 \(from April 2022\) - GOV.UK \(www.gov.uk\)](#)

2.2 In addition to the Policy Statement, there are often various legal agreements with local authorities which determine how we set rents. These include:

- Section 106 agreements, which require developers to build affordable housing that can be purchased and managed by a social landlord like Network Homes.
- Development agreements, which are sometimes made when a local authority sells us land.
- Nominations agreements concerning how homes will be allocated.

2.3 Rent setting can also be determined by funding agreements. The grant funding we receive for building new homes from the Greater London Authority (GLA) or Homes England comes with conditions regarding how rents are to be set.

2.4 Since these agreements can involve different approaches to rents, some agreements need to take priority over others. For example, if the funding agreement and the Section 106 agreement set out different approaches to rents, one will need to take priority. Which agreement takes priority differs from case to case.

2.5 When rent-setting mechanisms are determined by these agreements, they apply to the relevant homes in perpetuity. In other words, the rent-setting mechanism stays the same even while different households move in and out of the home.

2.6 When rents are not determined by any of these kinds of agreements, we use our own approach to rent-setting as set out below, keeping within the rules in the Policy Statement and Rent Standard.

### **3. Principles**

3.1 Our approach is to maximise income whilst ensuring that rents are affordable given our social purpose. We want to maximise rental income, within the constraints of affordability, so we can increase our financial strength, enabling us to provide a better service to existing residents and to build more homes.

3.2 When Affordable Rents were introduced in 2010, we commissioned research on the impact on residents of this new rent type and of the welfare reforms also being introduced at the time, such as the benefit cap. This research led us to the position that in order to be affordable, rents for larger homes (i.e. homes with three or more bedrooms) should generally be set at a lower proportion of market rents than smaller homes. This is because larger households face higher living costs than smaller ones, but all couples and families with children are capped at the same level, however many children are in the household. The cap therefore has a greater impact on larger households than smaller ones, and rents need to be very low if they are to be affordable for large households.

### **4. Responsibilities**

4.1 The application of this policy and the Rent Control Manual will be managed and monitored by the Rent Accounting team. The Rent Setting Project Analyst will calculate revised rents which will be verified by the Senior Finance Analyst.

4.2 The validation files is expected to be reviewed and signed off by an independent external expert. However if we are unable to procure the services of one in good time, 2022/23 will be completed by Internal Audit

### **5. Appeals and complaints**

5.1 If a resident, or someone acting on behalf of a resident, appeals against a rent level or makes a complaint about a rent level, the appeal or complaint is handled by the Rent Accounting team. The Team will check if the rent has been set in accordance with this policy and the determinants of rent-setting mentioned above, such as the DLUHC Policy Statement and any relevant Section 106 agreement. If the rent has been miscalculated it will be changed.

### **6. Social rent**

6.1 Social rents (also known as formula rents and target rents) are the traditional rent type offered by social housing providers. Average social rents are roughly 50% of average private rents (according to the English Housing Survey 2018/19).

6.2 The mechanism for setting social rents has three parts: rents are set using the social rent formula, an upwards flexibility is applied, and rents are subject to caps.

6.3 The social rent formula 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*

6.4 A detailed explanation of the formula can be found the Policy Statement (chapter 2) and in Network Homes's Rent Control Manual.

6.5 Network Homes uses the 5% flexibility for social rents (except for SW9 properties), meaning we charge 105% of the rent determined by the formula. For supported housing we use the 10% flexibility (including SW9), meaning we charge 110% of the rent determined by the formula.

6.6 In the interests of affordability, all social rents are subject to rent caps, which differ by bed size. These are set out in the Policy Statement.

6.7 When a social rented home is re-let, we rebase the rent according to the formula. For rent increases during a social rent tenancy, see section 9 below.

## **7. Affordable Rent**

7.1 Affordable Rent is a type of rent introduced in 2010. Unlike social rent, it is not set using a formula, but is generally set in relation to market rents.

7.2 Affordable Rent is the most complex rent type among Network Homes's rents, because the way we set Affordable Rents has changed between different government grant funding programmes (known as Affordable Homes Programmes). Two Affordable Rent homes can have rents set in different ways depending on which funding programme was used to build them. We have also converted some social rent homes to Affordable Rent, and in this case the way we set the rent depends on the funding programme during which the conversion took place.

7.3 These differences in rent-setting for Affordable Rent homes continue even after the homes are re-let, because the rent-setting approach which applies to an Affordable Rent home when it is first built (or converted) apply to the home in perpetuity.

### *General approach*

7.4 When Affordable Rents were first introduced in 2010, we decided not to convert all social rents to Affordable Rents, and not to charge the maximum 80% of market rents on all Affordable Rents, because this would not be compatible with our social purpose.

7.5 We calculated that three-bed or larger homes needed to remain at target rent levels (i.e. levels determined by the social rent formula) in order to remain affordable, because of the household benefit cap, but that smaller homes could be charged more without becoming unaffordable. This is the rationale for our approach during the Affordable Homes Programme 2011-15 (set out below).

7.6 We also decided that we would always cap Affordable Rents at the relevant Local Housing Allowance (LHA) rates. These are the maximum levels of housing benefit available to households living in the private rented sector. This is for affordability purposes, as in high value areas even 75% or 80% of market rents could be very high.

### *Programmes*

7.7 For Affordable Rent homes built with funding from the Affordable Homes Programme 2011-15 (or converted to Affordable Rent during this period) rents are set as follows:

	<b>1-2 beds</b>	<b>More than 2 beds</b>
<b>London</b>	The lower of 80% of market rent and LHA (including service charge)	Target rent (excluding service charge)
<b>Outside of London</b>	The lower of 75% of market rent and LHA (including service charge)	

7.8 For Affordable Rent homes built with funding from the Affordable Homes Programme 2015-18 (or converted to Affordable Rent during this period) Affordable Rent is divided into two sub-types:

- Discounted Rent: up to 80% of market rent, capped at LHA
- Capped Rent: up to 50% of market rent with a floor of social rent plus service charge

7.9 We generally make a 50-50 split between Discounted and Capped Rent at every bed size. But in the interests of affordability, homes with more than two bedrooms are calculated using the Capped Rent method, even if they are technically Discounted Rents.

7.10 London Affordable Rent is effectively a slightly higher social rent which is still classed as Affordable Rent. The initial London Affordable Rent levels for 2017/18 were set using the social rent caps mentioned above, increased by CPI as at September 2016 plus 1%. Since then, the levels have increased by CPI+1% each year. They are therefore slightly above typical social rent levels. The GLA publish a table for LAR rents annually.

### *Other cases*

7.11 For any Affordable Rents not funded through an Affordable Homes Programme, rents are set as follows:

	<b>1-2 beds</b>	<b>More than 2 beds</b>
<b>London</b>	The lower of 80% of market rent and LHA (including service charge)	Target rent (excluding service charge)
<b>Outside of London</b>	The lower of 75% of market rent and LHA (including service charge)	

### *Re-lets*

7.12 When an Affordable Rent home is re-let, we rebase the rent using the latest market rent data for the surrounding area (using software known as Hometrack). This valuation method is in approved by the Royal Institute of Chartered Surveyors (RICS).

## **8. Rent at homes for older persons**

8.1 Homes for older persons are split between those that come under the regulated rent regime and those that are classed as Specialised Supported Housing.

8.2 Homes for older persons which come under the regulated rent regime are set at relet at either (a) social rent, using the rent setting formula +10%, or (b) Affordable Rent, set at 80% of market rent capped at LHA.

8.3 Homes classed as Specialised Supported Housing are set at social rent cap on re-let.

8.4 We currently apply the regulated rent increase formula of CPI+1% to all types of older persons' accommodation.

## **9. Rent increases during a tenancy**

9.1. Annual rent increases are a matter for decision by the Board. In reaching their decision the Board considers affordability for residents and financial sustainability for the organisation, in line with the principles set out in section 3. Following the Policy Statement, Board considers the local market context as well as the levels of Housing Benefit or Universal Credit available to residents.

9.2. The DLUHC Policy Statement on rents for social housing limits annual rent increases at General Needs homes and Homes for Older Persons to Consumer Price Inflation (CPI) + 1%.

The relevant CPI figure is the 12-month figure from the previous September, i.e. the 12-month figure in September 2020 for increases in April 2021.

9.3. The Policy Statement does not apply to the following rents or housing types:

- the rental element of shared ownership;
- intermediate rent;
- specialised supported housing;
- relevant local authority accommodation;
- student accommodation;
- PFI social housing;
- temporary social housing;
- care homes.
- and any service charges payable by tenants

Rent increases for these housing types are reviewed annually according to market conditions and underlying inflation. Any service charges payable by tenants will be authorised by the relevant director and subsequently approved by the Executive Director of Finance and ratified by the Board as part of the approval of the Annual Rent

9.4 In April 2022, rents at General Needs homes and Homes for Older Persons will rise by 4.1% (equivalent to CPI+1%). The rationale for this decision is that the financial context for Network Homes necessitates an income maximising approach. The specific pressures which make this necessary are as follows:

- The pandemic has exposed Network Homes to certain financial risks, such as pressure on income collection rates, increased voids turnaround period, the impact of a market slowdown on our private sale and shared ownership homes, and greater development expenditure due to a slowdown in completion times caused by social distancing measures on site.
- In 2019/20, Network Homes was still experiencing the impact of the annual 1% rent reductions 2015/16-2019/20, in the sense that rents were still below 2015/16 levels by 1.3%.
- Network Homes faces high building safety costs some of which will not be met by government. In order to fund building safety works without reducing our programme to build much needed new affordable homes and maintain existing properties, income must be maximised.

As noted in section 3.2 above, not implementing the maximum rent increase of CPI+1% has a permanent impact on rental income. As increases are capped, there is no option to catch up on income lost in future years due to implementing a lower than maximum increase.

9.5 Network Homes recognises the impact of the pandemic on many residents, and therefore has a Charitable Fund which can be used to support residents at risk of financial hardship (see separate Charitable Grant Policy).



## 10. Other rents

### 10.1 Intermediate rents:

- We let our standard intermediate rent homes at up to 80% of market rent.
- A non-standard intermediate rent model is London Living Rent, which is a rent-to-shared-ownership product for people on medium incomes. Rents are set at roughly a third of borough-wide median household incomes and varied by ward-level house prices and number of bedrooms. The rent setting methodology is dictated by the GLA and tables are provided on their website. London Living Rent rents increase annually at CPI.
- Key Worker rents that sit outside of rent regulation are set by the business up to 80% of market rents and each year assessed for their lettable.

**10.2 Fair rents:** Tenancies which began before 15 January 1989 are likely to be 'regulated tenancies' or 'secure tenancies'. Regulated tenants may request that the rent for the property is set by the Valuation Office Agency at a 'fair' level. Fair rents take the quality and location of the property into account but ignore the effects of housing scarcity. Network does not offer new lets at fair rents, except in the case of mutual exchanges.

**10.3 Shared ownership:** The annual rent payable on the unsold share of a shared ownership home is determined by the lease, but this is usually 2.75% of the unsold share. The rate of increase also depends on the lease.

**10.4 Rents for Temporary Social Housing and Agency Managed homes** sit outside of rent regulation and are set at Local Housing Allowance rates. Rent setting at these properties is subject to approval by ELT.

**10.5 Garage rents** sit outside rent regulation and are determined by the market and generally increase at RPI. Garage rents are also subject to VAT at standard rate. In April 2021 garage rents will increase by the Retail Price Index (RPI).

**10.6 Ground rents** are set according to Network Homes's Ground Rents Policy.

## 11. Legislation

11.1 In addition to the documents mentioned above, we set rents in accordance with the following legislation:

- Housing Act 1985
- Housing Act 1988
- Housing & Regeneration Act 2008
- Rent Act 1977
- Rent Acts (Maximum Fair Rent) Order 1999
- The Welfare Reform and Work Act 2016
- The Social Housing Rents (Exceptions and Miscellaneous Provisions)

## **12. Equality and diversity**

12.1 We will apply this policy consistently and fairly and will not discriminate against anyone based on any relevant characteristics, including those set out in the Equality Act 2010.

## **13. Consultation**

13.1 The following people and groups were consulted during the writing of this policy: both Resident Panels, the Executive Director of Finance and the Director of Leasehold, Service Charges and Rent Accounting , and the Head of Rent Accounting.

## **14. Review**

14.1 Proposed annual rent changes, such as increases within the CPI+1% limit, will be reviewed by the Board annually.

14.2 The rest of this document will be reviewed every 3 years or sooner if there is a specific legislative, regulatory or service requirement or change in guidance, law or practice.