

## Rent Setting Policy

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- 1. Policy statement**      Policy for the setting of Social Housing and Affordable Housing rents, rent review and authorisation levels.
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- 2. Contents:**
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|---------|--|
| Page 2. | Introduction                             |
| Page 2. | Legislative Framework                    |
| Page 3. | Rent Setting for Rented Homes            |
| Page 4. | Rent Setting for Affordable Rented Homes |
| Page 6. | Rent Setting for Shared Ownership Homes  |
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- 3. Legislative Requirements**      Bromford's policy is to comply with rent setting as set out in:  
Housing Act 2004  
HCA Rent Standard Document
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## Introduction

Bromford is committed to the provision of social and affordable housing at rents which are affordable to our customers. Against this background the aim of this policy is to provide a framework which ensures that rents are set at a level that:

- are affordable for people in low paid work;
- maintains Bromford's financial viability;
- delivers an economic return to Bromford sufficient to sustain the delivery of high quality housing and maintenance services;
- ensures sustained and effective demand for our homes;
- complies with the regulatory requirements of our regulators, ie: the Homes and Communities Agency ("HCA");
- complies with other legislation applicable to Housing Associations.

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## Legislative Framework

The Housing Act 1988 gave Associations the responsibility for setting rents on all new lettings. Associations were then required to operate more than one system of calculating rents:

- Fair rents for secure tenants (ie: tenants before the 1988 Act);
- Assured rents for all new lettings post 1988;
- Charges for licensees.

Registered landlords are subject to the overall requirement of the Tenants Guarantee that rents must be set and maintained within the reach of low paid employment.

The Housing Corporation published guidance on the rent restructuring framework in 2002. Compliance with the framework will be taken as compliance with the relevant sections of the regulatory code.

All housing associations are required to meet the government's rent restructuring targets by March 2012. Detailed guidance was published by the Tenant Services Authority (TSA) for the operation of the rent restructuring framework, which sets out how target rents are to be calculated and the maximum annual increases allowed for rents in order that the rent converges to the target within the given timeframe.

A summary of the rent restructuring guidance is given in Summary of the Rent Restructuring Regime.

The Regulator of Social Housing in England (the regulator) – under the Localism Act, responsibility for social housing regulation passes to the Homes and Communities Agency (HCA) Regulation Committee from 1<sup>st</sup> April 2012. Prior to 1<sup>st</sup> April 2012 the regulator was the Tenant Services Advisor.

Registered providers shall charge rents in accordance with the objectives and framework set out in the Government's direction to the regulator of November 2011.

Rents for Shared Ownership are governed by the terms of the individual lease agreement.

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## Rent setting for Rented Homes

### Assured Tenancies

**Historically** - Bromford's rent policy ensured that Bromford materially met the rent convergence criteria by the target date of March 2012. Up till April 2014 rent increases were based on RPI % plus ½%, with additional increases of up to £2 per week to bring rents up to target levels. For general needs stock the HCA guidance allows rents to lie in the range +/- 5% of target rents. Bromford has adopted the policy of converging General Needs rents to +5% of target rents. For Supported Housing stock the HCA guidance allows rents to lie in the range +/- 10% of target rents. Bromford has adopted the policy of converging rents to +10% of target rents.

**From April 2015**, rent increases will be based on CPI plus 1%, with no additional increases to bring rents in line with target.

However, on relet, rents can be let at the previously calculated target rent level.

The HCA issue a circular each year giving the CPI % to be applied to the following year's annual rent review process. For RSL's with March year ends and April reviews this is the published CPI for the previous September.

HCA guidelines apply to existing assured tenancies and to the initial setting of social rents for new properties. The proposed rent for a new scheme is calculated based on the target rent by the New Homes team at bid stage. This is approved at Executive Board - Investment as part of the financial scheme appraisal.

Rents are subject to a **rent cap** set by the HCA each year, which ensures affordability, ie: annual increases cannot take a rent above the caps. The rent caps applicable for 2014/15 are:

Bedsit/ bedspace/ 1 bedroom	£137.71 pw
2 bed properties	£145.80 pw
3 bed properties	£153.90 pw
4 bed properties	£162.00 pw
5 bed properties	£170.10 pw
6 bed properties	£178.19 pw

In determining whether to apply the maximum allowable increase to social rents, we will also have regard to average income data for the relevant region and the impact of benefits. **Refer to the Rent Policy – Affordability Guidelines Document for more detail.**

Service charges for Assured Tenancies are set to recover applicable service and estate costs for the property; they are reviewed annually along with the rent. A separate **Service Charge How To Guide** sets out the methodology of calculating the relevant service charge.

### Assured Shorthold Tenancies for General Needs and Supported Housing properties

Some general needs properties are let initially on an Assured Shorthold tenancy, which is used as a "starter tenancy" to ensure customers can manage their tenancy commitments. When an Assured Shorthold tenancy ends and an Assured tenancy is granted, rent is charged for the property at the same rate.

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Assured Shorthold tenancies are also used for certain supported housing properties, where the client group needs greater support to manage their tenancy commitments.

### **Secure Tenancies**

Secure tenancies are subject to the Fair Rent Regime, which applies to tenancies which predate the 1988 Housing Act. Bromford has a diminishing number of such tenancies subject to this legislation. These tenancies have their rents reviewed every two years and the rent is registered by the Rent Officer within the relevant local authority. Tenants have the right to be consulted before a new rent is set. If either party disagrees with the rent officers decision there is the right to appeal within 28 days. The appeal is heard by the Rent Assessment Panel and is binding on both parties.

Bromford's policy for the remaining Secure tenancies is to achieve rents at the same level as that for equivalent properties let on an Assured tenancy basis. For rent registration, submissions to the rent officer will be made with the objective of achieving equalisation. Bromford will not apply Fair Rent levels higher than the equivalent Assured tenancy rent (target plus 5% or 10% leeway) for our properties. Therefore if the Rent Officer awards a higher rent, Bromford will not apply it, however if a lower rent is awarded, Bromford is legally bound to apply the Rent Officer's decision.

In calculating Fair Rent submissions we will:

- Compare the existing Fair Rent with the equivalent Assured Rent for the property based on applying our Assured Rent setting Policy and rent convergence modelling.
- The application to the Rent Officer will be for the current target plus amount (plus service charge) but will be capped if necessary by the equivalent of the previous 2 years of Assured Rent increases.
- Irrespective of the decision by the Rent Officer the maximum rent Bromford will apply will be the modelled Assured Rent.

Service charge reviews will be based upon achieving full coverage of the relevant service costs. Service charge elements are slightly different for Secure Tenancies but where elements are common with Assured Tenancies, the charge calculation will be on the same basis. **Bromford's Service Charge Setting Guidelines** are set out in a separate **How To Guide**. For Secure tenancies, service charges form part of the registered rent determined by the Rent Officer.

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## **Rent Setting for Affordable Rented Homes**

### **Affordable Tenancies**

Bromford's Rent Policy is to set rents within the **Affordable Homes Framework** and **Rent Standard Guidance Document**.

### **Affordable Rent Guidance**

The Rent standard (**see hyperlink above**) sets out that Affordable Rent terms can only be used where a delivery agreement for new supply of social housing has been agreed under a new supply agreement entered into between a PRP and the Homes and Communities Agency (HCA) or the Greater London Authority (GLA) under the 2011-15 Affordable Homes Programme Framework.

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Homes let on Affordable Rent terms fall within the definition of social housing, but are exempt from the full requirements of rent restructuring detailed in the Rent Standard Guidance.

#### **Later acquisition of homes let on Affordable Rent terms**

If homes let on Affordable Rent terms in compliance with the Rent standard are sold to, or otherwise acquired by, another PRP, the PRP acquiring that stock is unlikely, in relation to that stock, to have an agreement with the HCA or GLA. Nonetheless, that acquiring PRP will still be in compliance with the Rent standard where it continues to charge rents in accordance with the Affordable Rent provisions of the Rent standard and the provisions of the Affordable Rent tenancies which they acquired.

However, the acquiring PRP will not be in compliance with the Rent standard if it sets rents on Affordable Rent terms in relation to other stock, if it does not itself have in place a FDA or SFA with the HCA or GLA. For the avoidance of doubt, note that existing stock may only be converted to Affordable Rent terms if a FDA is in place.

Bromford's Affordable Rent Policy (inclusive of service charges) is to set initial rents at a level which is no more than 80% of the estimated market rent for the accommodation (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institute of Chartered Surveyors.

In determining whether rents at 80% of the market will generally be affordable to customers in low paid employment, we will have regard to average income data for the relevant region and the impact of welfare benefits. **Refer to the Affordable Rents – Rent Setting Policy Affordability Document** for more detail.

#### **Rent Review Policy**

Affordable Rents will be reviewed annually in April of each year. Rent increases will by no more than CPI +1%, based on the previous September's published CPI figure.

#### **Starter Tenancies**

Some properties are let initially on a starter tenancy, which is used to ensure customers can manage their tenancy commitments. When a starter tenancy ends, usually after 12 months, and the tenancy becomes a fixed term tenancy, rent is charged for the property at the same rent, subject to any rent review increases that may be applicable.

#### **Rebasing Affordable Rents**

On relet or at the end of a fixed term tenancy the Affordable Rent will be recalculated at 80% of the then applicable Market Rent. However, if this newly calculated rent is lower than the equivalent Assured Social Rent then the Assured Rent will be used as the minimum Affordable Rent at that point. This approach has been agreed with the HCA as part of our FDA contract.

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### **Relet of Properties at Affordable Rents**

The HCA Framework Agreement includes the ability to relet a number of Social Rent properties at Affordable Rent levels. On relet, these properties will have their Affordable Rent set in the same way as the Affordable Rent for new supply ie: at no more than 80% of the estimated Market Rent for the accommodation (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institute of Chartered Surveyors. Once relet at Affordable Rent levels, the property will continue to have Affordable Rent charged on relet, unless it becomes subject to disposal.

Bromford has regard to the **affordability of rents** and ensures the rents are sufficient to cover Bromford's long term loan repayments. However Bromford is not obliged to charge a rent equal to the actual amount necessary to repay the long term loan and the amount charged can be a higher or lower figure.

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### **Rent Setting for Shared Ownership Homes**

Rent is set as a percentage of the unsold equity by the New Homes team at bid stage. The initial rent must not exceed 3% of the capital value of the unsold equity at the point of initial sale, but it can be less.

The HCA encourage Housing Associations to set rents that average no more than 2.75% of the value of the unsold equity at the point of initial sale.

In setting Shared Ownership Rents, Bromford must have regard to the affordability of the total housing expenditure of customers ie:

- mortgage costs;
- rent;
- service charges (including the cost of management and insurance).

There is no restriction on the % rent charged on non grant funded schemes and the rent is set based on affordability through the financial appraisal. In practice the principles of rent setting on grant funded schemes are applied. The same percentage must be applied through to grant confirmation and final stage costs. Rents at practical completion must be either equal to or less than those agreed at grant confirmation.

#### **Calculation of property rent**

The value of the unexpired equity in a property is calculated and multiplied by the % of rent divided by 12 months, to obtain the monthly rent charge for the property. This figure will be inclusive of Bromford's internal management fee for administering the Shared Ownership Rent account. There is no provision within a Shared Ownership Lease to apply a management fee and this must be recovered from within the rent.

A monthly charge for buildings insurance and any applicable service charges is applied. Annual / or bi annual ground rent charges are applied as applicable.

An up to date valuation is required which will be valid for three months. Where the home remains unsold during this period a further valuation is required. When a reservation is made on the property, the valuation current at the time of the offer will be valid for three months from the date of the offer.

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### **Rent Setting on Secure Shared Ownership Properties**

Shared owners whose tenancies with Bromford began prior to 16 January 1989 have Fair Rents with secure Shared Ownership Rents.

Secure tenancies are subject to the Rent Act 1977 and have their rents set and reviewed by the regional District Rent Officer.

A proposed rent is forwarded to the Rent Officer no less than 21 months since the previous rent registration date. The proposed rent recommends a rent for the following two years.

For all applications post 1st February 1999 the maximum increase in the registered rent is RPI + 7.5%. For all subsequent applications for registrations, the maximum increase in the registered rent is RPI plus 5%.

The application will specify the rent sought to register, plus whether the rent includes any sum payable for services – inclusive of buildings insurance, management fee and any service charges payable.

The Rent Officer will determine the effective date of increase and customers will be given 28 days notice of the increase of the total registered rent.

This process is administered within the Service Charge Team (Finance).

As the security of tenancy is set by the lease, if the property sells and the lease is assigned, the new occupier will continue to pay a Secure Rent for that Shared Ownership property.

If the Shared Ownership lease prescribes that the rent is to be determined by the Rent Officer, Bromford must apply the charge awarded rather than apply a lower charge. The lease will set out the process the leasee should follow in the event that the rent applied is disputed.

### **Rent Review and Authorisation**

On new build Shared Ownership properties there will be no increase in rent until 1 October following the first twelve months of ownership.

The date and method of rent increase is governed by the terms of the Shared Ownership lease.

No rental increase is applied on assignment of the Shared Ownership lease, the provisions of which are binding. The current recommended form of HCA Lease will be applied on all new properties which sets out rent review provisions. The Rent increases are typically a % increase + RPI.

Bromford will aim to give Customers at least 28 days notice of any increase.

In the interest of affordability/reasonableness Bromford will only apply an increase based on the standard rent review clause ie: of 2% + RPI in cases where there are leases with excessive non – standard rent review clauses eg 14% increase per annum.

Where the lease provides for the higher of RPI or 14%, Bromford will apply RPI plus 2%.

Where the lease provides for the higher of RPI or 2%/5%, Bromford will apply whichever figure is the greater to maximise income.

Shared Ownership properties owned by Fosseway Housing Association Limited are subject to a 2 yearly rent increase which is calculated from a formula based on property valuations. An independent valuer is appointed to undertake the valuation.

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### **Rent Setting for Leasehold Schemes for the Elderly**

On a Leasehold Scheme for the Elderly the maximum share that can be purchased is restricted to 70% of the open market value. There is no provision to collect rent on the remaining 30% where the maximum share has been acquired.

### **Intermediate Rents and Rent Before you Buy**

Intermediate Rents and Rent Before You Buy properties are let at a rent which is no more than 80% of an Open Market rent of an equivalent property in the same area. The 80% charge is inclusive of any service charge costs.

Rents are increased annually on 1st April and an external RICS valuer is appointed to determine the rent. No rent review is applied where there is a change of tenancy mid year.

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