

**HOUSING LANDLORD SERVICES**

# Rent setting and service charge policy



# Document

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<b>Name of policy</b>	Housing Landlord Services Rent Setting and Service Charge Policy
<b>Purpose of policy</b>	<p>New Forest District Council (the Council) is committed to a transparent approach to rent and service charge setting in accordance with social housing regulatory standards.</p> <p>This policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:</p> <ul style="list-style-type: none"><li>▪ Ensure that the council adheres to government legislation and regulation when setting rents.</li><li>▪ Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA.</li><li>▪ Provide as much financial certainty for the HRA as possible.</li><li>▪ Maximise the income necessary to maintain our existing housing stock and to construct or acquire new homes.</li><li>▪ Support the delivery of the HRA Business Plan.</li></ul>
<b>Policy applies to</b>	This policy applies to the setting of rent and service charges to all tenants and leaseholders of New Forest District Council, and includes all housing and garages operated by the landlord function of New Forest District Council
<b>Lead officer</b>	Service Manager – Housing Options, Rents, Support and Private Sector Housing
<b>First issued</b>	6 January 2023
<b>Latest update</b>	
<b>Version control</b>	V1.0 – 6 January 2023
<b>Review period</b>	Annually ahead of the rent setting process each year. Otherwise, as required by legislative, contractual, or organisational changes.
<b>Update overview</b>	V1.0 – New Policy

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# 1. Introduction

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Rent income from its Housing and property portfolio is the main source of revenue for the Housing Revenue Account (HRA), funding management, maintenance, and property improvement activities. It also services the loans which enable the development of new council owned social housing and enabled the Council to leave the national HRA subsidy system.

A regulatory framework determines how rents must be set and increased by social housing landlords. From 1 April 2020, Registered Providers must comply in full with all the requirements and expectations set out in the Regulator of Social Housing's Rent Standard. They must also comply with the Rent Policy Statement on Rents for Social Housing 2019 on the setting, increase and decrease of rents and service charges.

The Council's Landlord Service sets out how this income will be allocated to meet the strategic objectives for its housing stock in its HRA Business Plan. This plan balances the pressures on income and expenditure over the long term so that the HRA remains viable at all times throughout the plan period.

This policy:

- Details how the Council will calculate, and charge rent for all properties in its HRA.
- Sets out the approach to levy service charges for tenants and leaseholders where appropriate

## 2. Policy and legislation

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Since 2001, rents for properties let at Social Rent have been based on a formula 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 principal aim of this formula-based approach is to ensure that similar rents are charged for comparable properties across the country.

In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of market rent (inclusive of service charges). The introduction of Affordable Rent was intended to fund the construction of more new homes at a sub-market rent. Landlords can only let new properties at Affordable Rent where it has agreed the principle with Homes England, or where the Council is using retained s141 right to buy receipts to part pay for new affordable homes. NFDC delivered its first affordable rent properties in 2020.

In October 2017, the government announced its intention to set a rent regime for local authority landlords and housing associations that permits annual increases of the formula rents, for social rented properties and Affordable Rents of up to CPI + 1% from 1 April 2020, for a period of at least five years. The formula rent calculation returns a notional rent figure which demonstrates what the Council could charge up to each year.

Where a council has not deviated from setting rent levels at the maximum allowed under the formula each year, the actual rent charged to tenants will be the same as the formula rent. Where a Council has increased its rent at less than the maximum formula rent for any 1 year or more, there will be a difference in the formula rent and the actual rent charged to tenants.

Due to the result of compounding interest on income over time a 1-year deviation will grow over a business plan period and will result in an income gap that may never be recovered but could be reduced by additional measures.

The council has limited discretion over rent levels for individual properties, to take account of local factors and concerns. This discretion allows for social rents to be set at the formula rent when such a property is relet, and for new build or acquisitions to be newly let at the formula rent.

In addition, it provides flexibility to set rents at up to 5% above Formula Rent for general needs properties and 10% for supported housing. This is known as rent flexibility.

Rent and service charge setting is governed by:

- Housing Act 1985 Section 24.
- Landlord and Tenant Act 1985.
- Local Government and Housing Act 1989.
- Housing and Regeneration Act 2008 (a) Section 197.
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016.
- Welfare Reform 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 2020 - Regulator of Social Housing, 1 April 2020.

# 3. Purpose

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## 3.1 The purpose of this policy

This policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:

- Ensure that the council adheres to government legislation and regulation when setting 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 HRA Business Plan.
- Ensure the Council meets its statutory obligations.

## 3.2 Residents affected by this policy

This policy applies to all tenants of New Forest District Council, properties and assets that are accounted for in the HRA, including:

- Rented residential accommodation.
  - Service charges for HRA rented residential accommodation.
- It does not cover:
- Rents and service charges for General Fund residential properties.
  - Ground rents and service charges for leasehold residential accommodation.
  - Garages.

# 4. Formula rent

## 4.1 Rent Setting at New Forest

This section of the policy does not apply to 'Affordable rent' properties set at up to 80% of market levels and the Council's stock of low-cost shared ownership properties.

New Forest District Council has largely approved annual social rent increases at the maximum level of rent increase as determined by the rent setting formula. This has applied increases as follows, in the last 3 financial years:

Year	Maximum Increase allowed %	Actual Increase applied %
2020/21	2.7	2.7
2021/22	1.5	1.5
2022/23	4.1	4.1

As at the last annual rent increase application on 4 April 2022 all New Forest District Council owned social rented properties were let at a rent at or below formula rent.

## 4.2 Formula Rent

Weekly formula rent is to be calculated using the following formula:

- 70% of the national average rent in April 2000.
- Multiplied by the average manual earnings for the county in which the property is located divided by the English average manual earnings, both at 1999 levels.
- Multiplied by a bedroom factor (or weight).
- Plus 30% of the English average rent.
- Multiplied by an individual property's value divided by the English average property value, as at January 1999 prices.
- Putting the relevant information into the above formula gives the Formula Rent for 2000/01 for the property, which must then be updated, for each year, using the relevant uplifts stated in the *Policy statement on rents for social housing*. This may be amended from time to time, and the council adheres to the most current edition.

The Government determined Formula Rents will increase by CPI + 1% each year from 2020/21 onwards for a period of five years. CPI is taken at September of the previous year.

However, due to a significant increase in inflation (10.1%) to September 2022 the Government intervened and implemented a maximum cap on the rent increase for the year 2023/24 to 7%.

## 4.3 Rent Caps

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. The rent cap is expected to increase by CPI + 1.5% each year.

# 5. Rent setting

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## 5.1 Rent Setting Policy

The council sets rents for its residential accommodation in the HRA in accordance with the Policy Statement on Rents for Social Housing issued by the Secretary of State on 26 February 2019 and the Rent Standard 2020 issued by the Regulator of Social Housing, on 1 April 2020 and any subsequent amendments in legislation regulation or guidance.

New Forest District Council will apply the following principles:

- Actual Rents and Affordable Rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to CPI + 1% each April from 2020/21 for a period of five years, except for the financial year 2023/24 where the maximum increase is capped at 7%.
- CPI will be taken as at September of the previous year.
- All newly built dwellings that are not let at Affordable Rent, or Shared Ownership, will be let at Formula Rent, plus 5% rent flexibility, unless it has been otherwise agreed with Homes England. The option to apply rent flexibility to this category of property is to recognise the additional quality and high energy efficiency standards (EPC a or B) that each of these properties delivers to our tenants. In having a high energy performance rating of A or B the resulting energy costs will be lower and more affordable to the occupying tenants, reducing any impact of a higher rent.
- Properties purchased under the 'Buyback' scheme will be let at formula rent.
- All dwellings, including age restricted and extra care properties, that become vacant and available for re-let, and that are not let at Affordable Rent or Shared Ownership, **will be let at the Formula Rent**, to be applied from 2023/24 onwards to ensure the Council has the necessary funds to achieve planned maintenance and energy efficiency targets on the existing stock, and to contribute towards a programme to build and/or acquire new council homes.
- Rent Flexibility of 5% will be applied to the weekly rent of empty social rent properties upon reletting, in addition to the uplift to formula rent, where the empty property:
  - Is part of an energy efficiency improvement programme
  - Receives significant expenditure, over £40,000, to remedy substantial property faults
- On each occasion that an Affordable Rent tenancy is granted, including the granting of a further flexible tenancy term to the same tenant, the rent is re-set based on a new market rental valuation. The rent of an existing Affordable Rent tenant (including where they have a new tenancy) may not be increased by more than CPI+1% in any year, subject to specified limits.

## 5.2 Affordable Rents

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), at a level no lower than the formula rent. 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 council housing, where applicable.

## 5.3 Calculating Affordable Rents

Affordable Rent will not exceed 80% of gross market rent (including applicable service charges). Gross market rent is the rent the property would reasonably be expected to be let for in the private sector. Factors including property size, location type and service provision will be considered when determining gross market rent. The council will comply with the terms of any agreements with Homes England or the Secretary of State when setting Affordable Rents. The council will have regard to the local market context, and, at the initial letting, its Affordable Rents will not exceed 80% of gross market rent or Local Housing Allowance for the Broad Rental Market Area in which the property is located. The Affordable Rent will be initially set at the lower of these two figures.



## 5. Rent setting (Cont'd)

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### 5.4 Re-setting Affordable Rents for follow on tenancies

The initial rent will be re-set, based on a new market rental value, on issuing a new tenancy. Subject to Homes England approval initial rents and reset Affordable Rents will be 'capped' to not exceed Local Housing Allowance levels relevant to the size of accommodation and the Broad Rental Market Area in which they are located.

If the accommodation is re-let to the same tenant because of a probationary tenancy ending, the rent will not be re-set. If the council is re-setting the rent because of re-letting Affordable Rent housing to an existing tenant of the specific property concerned, it will not increase the rent by more than CPI + 1%.

### 5.5 Shared Ownership

Shared Ownership rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to RPI + 1% each April.

### 5.6 Service Charges

The council will:

- Set reasonable and transparent service charges which reflect the service being provided to tenants.
- Ensure that the cost of services provided to tenants are charged to the tenants who benefit from those services and are not cross subsidised by tenants not in receipt, where practicable.
- Ensure that all tenants who live in flat accommodation where a specific service is provided to their dwelling receive a service charge for their share of their building's respective costs. These charges relate to the servicing of lifts, mechanical ventilation systems, fire alarms, solar panels, etc.
- Ensure that the services and works are of a reasonable standard.
- Supply tenants with clear information on how service charges are set.
- Identify service charges separately from the rent charge.
- Where new or extended services are introduced, and an additional charge may need to be made. The council will consult with tenants in such circumstances.
- Service charges will be based, where possible, on actual expenditure for the preceding financial year.
- An asset management strategy and planned maintenance delivery programme will be put in place to enable service charges for leaseholders to be levied in advance, if appropriate. This will help leaseholders to budget for major items of expenditure.
- If service charges are less than actual expenditure, they will be raised by an amount which recovers actual expenditure, or a phased increase over a set period will be applied. Any increase will be recommended by the Council's Cabinet to be approved by Full Council and will follow the approved process for increasing charges.
- If actual expenditure is less than the current charge, the service charge may be reduced accordingly.

In 23/24 The Council will implement a new regime of service charging which demonstrates to tenants, where applicable, a clear breakdown of charges for all services they enjoy, including where tenants have not previously been charged for services.

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

The council varies rent and service charges annually, normally at the beginning of the financial year in April. Tenants must receive at least four weeks' notice in writing of any changes to their rent or service charges and

# 5. Rent setting (cont'd)

the reasons for the rent change. The yearly change to rental and service charges are part of the annual HRA Revenue and Capital Budget setting process, which is a decision for Full Council.

## 5.8 Consultation

The council consults the Tenant Involvement Group on the contents of the draft annual HRA Revenue and Capital budget, including proposals to change rents and service charges before it is considered by Full Council. The draft annual 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.

## 5.9 Monitoring, Review and Evaluation

This Policy will be reviewed on an annual basis ahead of the rent setting process and will be modified as necessary to accord with any new legislation, regulation or changes to the legislative and regulatory framework or significant change to the benefits system.

## 5.10 Equality and diversity

The Council is committed to ensure that this policy does not impact disproportionately on different equality groups. This strategy has been subject to an Equalities Impact Assessment which can be found at Appendix A.

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