

*Creating affordable
homes and empowering
communities*

Rent Setting Policy

CONTROLLING AUTHORITY: Director of Finance		
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making a splash
in the areas we serve

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1. SCOPE

- 1.1. This policy covers rent setting for all tenures operated by Boston Mayflower. Specifically this policy covers the setting of rents for:
- Social Rent
 - Sub-market (Intermediate) Rent
 - Affordable Rent
 - Rent for tenants on Licence Agreements
 - Market Rent
 - Shared Ownership
 - Garages (including garage sites and parking / hardstanding)
- 1.2. Rent setting does not relate to service charges, which are calculated separately in accordance with the Service Charge Policy. This policy does however refer to whether or not service charges are included in or in addition to the rent.

2. BACKGROUND

- 2.1. RPI and CPI are referred to frequently throughout this document.
- RPI refers to the Retail Prices Index published by the Office of National Statistics. The RPI figure to use is always that of the previous September unless stated otherwise. This is as specified in the government's rent restructuring regime applicable up to and including the 2014/15 rent year.
 - CPI refers to the Consumer Prices Index published by the Office of National Statistics. Again, the CPI figure to use is always that of the previous September unless stated otherwise. This is specified in the government's rent restructuring regime applicable from the 2015/16 rent year until the 2024/25 rent year.
- 2.2. In April 2002, the Government implemented a standard formula for setting social housing rents (known as target rents) and a standard rent increase formula of September RPI + 0.5% plus up to £2 a week, based on a 52 week year. The idea was to bring social rents for similar properties and similar areas into line with each other across all housing associations and local authorities. The process of reaching the new rents was known as rent convergence, or rent restructuring. Rent convergence should have been broadly complete by 31 March 2012 for general needs properties and by 31 March 2013 for supported housing properties. For the purposes of this policy, these rents are known as **social rent**.
- 2.3. In 2011, the Government introduced the Affordable Homes Programme allowing housing providers, like Boston Mayflower, to charge **affordable rent** for new lets and re-lets. Affordable rent is defined as at up to 80% of market rents. Affordable rents are not governed by rent restructuring.

- 2.4.** Following the Rent Direction of November 2011, the Regulator published the revised Rent Standard in April 2012, which includes the principles governing social rents and affordable rents. The Rent Standard defines Boston Mayflower's rent setting obligations.
- 2.5.** In 2013 the Government revised the standard rent increase formula to September CPI + 1.0%. The additional up to £2 per week for rent convergence no longer applies. This formula comes into effect for the rent year 2015/16 and is in place for 10 years.

3. POLICY

- 3.1.** Boston Mayflower will comply with the Rent Standard and any other Government and Regulatory Standards around rent setting.

4. SOCIAL RENT

- 4.1.** Social rent applies to the majority of Boston Mayflower's properties.

4.2. Social rent setting

- 4.2.1.** Social rents are subject to the Rent Standard and are set according to a **target rent**.
- 4.2.2.** The target rent is calculated using a formula that takes into account the value of the property (as at January 1999), the size of the property and the average manual worker's earnings in the local area.
- 4.2.3.** The value of the property is calculated either as an Existing Use Value – Vacant Possession or where such a value is not available (for example specialist schemes such as supported or sheltered housing) a Depreciated Replacement Cost (DRC) is used in its place. The DRC method of valuation broadly corresponds to the cost of replacing the building, taking account of the fact that generally it would not be brand new. These values are as at January 1999.
- 4.2.4.** The weekly target rent is:
70% of the average rent for the Housing Association sector x relative county earnings x bedroom weight
+
30% of the average rent for the Housing Association sector x relative property value.
- 4.2.5.** These values have been defined by the Regulator in the Rent Standard (and previous rent restructuring guidance) and have been used in Boston Mayflower's target rent calculations.
- 4.2.6.** The Regulator allows housing associations to set their social rents to a level 5% higher than target rent for general needs tenants and 10% higher for sheltered and supported housing tenants. Boston Mayflower's Board has agreed to apply this discretionary increase in full.
- 4.2.7.** Target rents are capped to minimise the impact of high property values on affordability for tenants. The rent caps are published each year by the Regulator.

- 4.2.8. Boston Mayflower operates a 48 week rent year (4 rent free weeks) for the majority of its social rent tenants. Where this is the case rents are increased accordingly by the following formula: $52 \text{ week rent} \times 52 / 48$.
- 4.2.9. Some social rent tenants are charged rent weekly with no rent free weeks. This will be specified in the tenancy agreement.
- 4.2.10. The target rent does not include service charges. Any service charges, whether or not they are Housing Benefit eligible, are charged in addition to the social rent.

4.3. Social rent annual rent increases

- 4.3.1. Assured and fixed term tenants' rents can be increased during the first year of the tenancy by virtue of a contractual rent review clause in the tenancy agreement. In the case of assured tenancies, section 13 Housing Act 1988 applies to any increase to rents after the first year increase and the tenancy agreement provides this mechanism. Section 13 does not apply at all to any increases in the fixed term tenancy but a contractual provision allows annual increases of rent. The first year increase will usually take place on the third Monday in April with subsequent years' increases taking place on the third Monday in April each year.
- 4.3.2. From 2002 until 2014 social rents were subject to a limit on annual increases (September RPI inflation + 0.5% plus up to £2 a week, based on a 52 week year) and target rents capped each year to ensure continued affordability to tenants in high property value areas. This increase formula was applied for the rent increases in April 2014 and was the last year this increase formula will be used.
- 4.3.3. From 2015 until 2024 social rents are subject to a new limit on annual increases (September CPI inflation + 1.0%) based on a 52 week year. The additional up to £2 per week for rent convergence no longer applies. Target rents continue to be capped each year to ensure continued affordability to tenants in high value property areas. This increase formula will be applied for rent increases in April 2015 onwards.
- 4.4. With effect from 20 April 2015, Boston Mayflower set re-let rents at target rent + 5% for general needs tenants and 10% for sheltered and supported housing tenants for new tenants to existing properties.

5. SUB-MARKET (INTERMEDIATE) RENTS

- 5.1. Boston Mayflower's Board has agreed that newly acquired properties may be let at sub-market (intermediate) rents unless planning or grant funding conditions require a property to be let at a social or an affordable rent.
- 5.2. **Sub-market (Intermediate) rent setting**
 - 5.2.1. Boston Mayflower's sub-market rents are classed as an **intermediate rent** by the Regulator.

- 5.2.2. Intermediate rent is exempt from the Regulator's social rent setting requirements.
- 5.2.3. The regulator defines intermediate rent as a social housing provided to tenants at levels which are above social rent levels and below market rent levels.
- 5.2.4. Sub-market (intermediate) rents will be set at up to 80% of market rents.
- 5.2.5. The sub-market (intermediate) rent for each property will be re-evaluated (also known as rebased) each time the property becomes vacant or where there is a new tenancy agreement (e.g. when a new tenancy is issued after a starter tenancy) using a RICS (Royal Institute of Chartered Surveyors) approved method.
- 5.2.6. This calculation includes the current market rent in the area; any local affordable rent percentage caps and the Local Housing Allowance (LHA) caps for the area. Boston Mayflower is aware of the financial challenges many tenants face and the cap allows the setting of sub-market (intermediate) rents which help support tenancy sustainment.
- 5.2.7. If the sub-market (intermediate) rent (including service charge) is less than the current social rent plus service charge for that property, then the property will be coded as social rent and social rent charged for the property accordingly.
- 5.2.8. Boston Mayflower's sub-market (intermediate) rents are set **inclusive** of Housing Benefit eligible service charges. Non-Housing Benefit eligible service charges, where applicable, will be charged in addition to the rent.
- 5.2.9. Sub-market (intermediate) rents are charged each week. There are no rent free weeks.

5.3. Sub-market (Intermediate) rent increases

- 5.3.1. Assured and fixed term tenants' rents can be increased during the first year of the tenancy by virtue of a contractual rent review clause in the tenancy agreement. In the case of assured tenancies, section 13 Housing Act 1988 applies to any increase to rents after the first year increase and the tenancy agreement provides this mechanism. Section 13 does not apply at all to any increases in the fixed term tenancy but a contractual provision allows annual increases of rent. The first year increase will usually take place on the third Monday in April with subsequent years' increases taking place on the third Monday in April each year.
- 5.3.2. In line with the Rent Standard, there will be a maximum annual rent increase of September CPI + 1.0%, provided that the increased amount is no higher than 80% of market rent.

5.4. AFFORDABLE RENTS

- 5.5. The Government launched their new Affordable Homes Programme in 2011. They proposed that housing providers charge 'Affordable Rent' for new lets, which they defined as at 'up to 80% of market rents'. The

additional income must be put towards developing new affordable homes.

5.6. The Board of Boston Mayflower have elected **not to** convert existing properties to affordable rent on re-let.

5.7. Affordable rent is applied only to properties where affordable rent is required as part of planning or grant funding conditions.

5.8. Affordable rent setting

5.8.1. The affordable rent for each property will be re-evaluated (also known as rebased) each time the property becomes vacant or where there is a new tenancy agreement (e.g. when a new tenancy is issued after a starter tenancy) using a RICS (Royal Institute of Chartered Surveyors) approved method.

5.8.2. This calculation includes the current market rent in the area; any local affordable rent percentage caps and the Local Housing Allowance (LHA) caps for the area. Boston Mayflower is aware of the financial challenges many tenants face and the cap allows the setting of affordable rents which help support tenancy sustainment.

5.8.3. If the affordable rent (including service charge) is less than the current social rent plus service charge for that property, then the property will be coded as social rent and social rent charged for the property accordingly.

5.9. Affordable rents are charged per calendar month.

5.10. The total affordable rent amount includes any housing benefit eligible service charges within it. Non-housing benefit eligible service charges will be charged in addition.

5.11. Affordable rent annual rent increases

5.11.1. Assured and fixed term tenants' rents can be increased during the first year of the tenancy by virtue of a contractual rent review clause in the tenancy agreement. In the case of assured tenancies, section 13 Housing Act 1988 applies to any increase to rents after the first year increase and the tenancy agreement provides this mechanism. Section 13 does not apply at all to any increases in the fixed term tenancy but a contractual provision allows annual increases of rent. The first year increase will usually take place on the third Monday in April with subsequent years' increases taking place on the third Monday in April each year.

5.11.2. Affordable rent annual increases are subject to the same guideline limits as social rent. Until the rent year 2014/15 this was an increase of September RPI + 0.5%. From the rent year 2015/16 the guideline limit is an increase of September CPI + 1.0%.

5.11.3. In line with the Rent Standard, there will be a maximum annual rent increase of September CPI + 1.0%, provided that the increased amount is no higher than 80% of market rent.

6. RENT SETTING FOR TENANTS ON LICENCE AGREEMENTS

- 6.1. Licence agreements apply only to specialist supported shared accommodation such as homeless hostels.
- 6.2. Rents are set based on the estimated costs of running the accommodation at the point the provision of accommodation begins. This is then verified by the local Housing Benefit Team at the local authority.
- 6.3. Rents are then increased annually by the same rates as Boston Mayflower social rents (i.e. September CPI + 1.0%).
- 6.4. Rents do not include either Housing Benefit eligible service charges or non-Housing Benefit eligible service charges, both of which are charged in addition to the rent.
- 6.5. Rent for licence agreements is charged each week. There are no rent-free weeks.

7. MARKET RENT SETTING

- 7.1. Market rent applies to a very small number of non-general needs properties. This includes properties owned by Boston Mayflower but leased to Speedwell Homes and market rent properties acquired through stock rationalisation.
- 7.2. Rent restructuring does not apply to market rent properties.
- 7.3. The rent will be set annually on 1 April taking into account the Market Rent at the time of the renewal. Rents are also reviewed at re-let.
- 7.4. The total market rent amount includes any housing benefit eligible service charges within it. Non-housing benefit eligible service charges will be charged in addition.
- 7.5. Market rent is charged on a weekly basis. There are no rent free weeks.

8. SHARED OWNERSHIP RENT SETTING

- 8.1. Specific exemption from rent restructuring is given for all shared ownership and low cost home ownership properties provided by social landlords.
- 8.2. Rent setting for all shared ownership properties is specified in their lease.
- 8.3. Boston Mayflower has a standard method for calculating the rent charge based on regulator guidance as 2.75% of the value of the retained equity held by Boston Mayflower following the sale of the first tranche. Consideration is given to affordability for the shared owners and the financial viability to the association in the design of the scheme and sometimes the 2.75% is varied. Boston Mayflower's Executive Team agrees any variation which is subsequently approved by the Board.
- 8.4. The shared ownership rent amount includes any housing benefit eligible service charges within it. Non-housing benefit eligible service charges will be charged in addition.

8.5. Shared ownership rent is charged on a monthly basis.

9. APPEALS

9.1. Any fixed term or assured tenant who feels that their rent has not been set in accordance with this policy can appeal using the Complaints procedure.

9.2. Under section 13 of the Housing Act 1988, tenants have the right of appeal to a Rent Assessment Committee if they feel the proposed rent for an assured tenancy is too high. Any tenant who is considering appealing should seek independent advice about this first from a Law Centre or Citizens Advice Bureau. The statutory right of appeal does not apply to fixed term tenancies and does not apply to any first year rent increase for an assured tenancy.

10. ANNUAL RENT INCREASES

10.1. Weekly rents increase on the third Monday in April each year. Monthly rents increase in April each year.

10.2. The first rent increase a tenant will get will be in the April following the start of their tenancy. Tenants are entitled to four weeks' notice. If the tenancy starts on or after the date notices of increase are served (usually at the end of February), then providing it is possible to provide the minimum 4 weeks' notice the tenant will be notified at sign up of the new rent which will apply from the third Monday in April of the same year. Most service charges are also on an April-to-April cycle and notice of any changes is given at the same time.

10.3. New tenants charged weekly rents will be charged the rent for the new financial year where their tenancy commences on or after the 1 April. They will then receive their first rent increase on the third Monday in April the following year.

11. GARAGE RENTS (INCLUDING GARAGE SITES, PARKING SPACES/HARDSTANDINGS)

11.1. Garage rents are agreed annually by the Board and are not subject to any restriction on the level of increase.

11.2. VAT on Garage Rents

11.2.1. Garage rents are subject to VAT at the standard rate.

11.2.2. The following types of parking facilities are standard rated supplies:

- A letting or licence of a garage, designated parking bay or space. The letting of a garage is standard rated even if it is not used for storing a vehicle.
- A right to park vehicles (including trailers) in, for example, a car park or commercial garage.

11.2.3. The letting of garages or parking spaces **in conjunction with the letting of dwellings for permanent residential use** is exempt provided:

- The garage or parking space is reasonably near to the dwellings; and
- The tenant takes up both the lease of the dwellings and the lease of the garage from the same landlord.

12. BOARD APPROVAL OF RENT INCREASES

12.1. Annually, the finance department will calculate the rent increases based on the latest government and regulatory guidance and prepare a report setting out the:

- methodology used to set the rents including the rates of inflation applied; and
- financial and non-financial implications of applying the proposed rent increase

12.2. The proposed rent levels report will be submitted to Board for approval on an annual basis. Customers will receive four weeks' notice of their increase therefore approval is obtained in January each year to ensure this is achieved.

13. REMOVAL OF PROPERTIES FROM THE RENT DEBIT

13.1. Boston Mayflower may approve the removal of void properties from the rent debit only in the following circumstances:

- The void property has been designated for demolition.
- The void property has been designated for renewal.
- The void property has been designated for sale.

14. COMMUNICATING WITH TENANTS

14.1. Residential tenants receive a rent increase letter that gives at least 4 weeks' notice of the increase. The rent increase letter will meet statutory requirements on format and content.

14.2. Tenants whose tenancy started on or after the date notices of increase are served (usually the end of February) will be advised at sign-up of the increase to be applied from the third Monday in April of the same year provided a minimum of 4 weeks' notice is possible.

15. REPORTING OF RENT LEVELS

15.1. Rent levels for Boston Mayflower's properties will be recorded within the annual statistical return to the regulator. This ensures the regulator is aware of rents and can monitor progress against other registered providers.

16. REVIEW

16.1. This policy will be subject to annual review.

16.2. Boston Mayflower's rent plan will be reviewed annually by officers who will make recommendations to the Board. The review will take account of the relationship between operational costs and the progress being made towards the implementation of our Rent Plan.

The plan will include a progress report and any amendments made to the plan over the previous year.

17. RELATED POLICIES

Service Charge Policy

Income Management Policy

Tenancy Policy

Garage and Parking Management

Appendix 1: Calculation of Target Rents

Registered Providers calculate a target rent for each property in ownership. The government has set out the basis for calculating the target rent and this is as follows:

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

This expressed as a formula by which the target rent for a property is calculated:

Weekly Rent Equals (52 week):

70% of the average rent for the HA sector **x** the relative county earnings **x** bedroom weighting

PLUS

30% of the average rent for the HA sector **x** the relative property value

As a result of Boston Mayflower's compact geographical location the relative county earnings are limited to a single county, Lincolnshire.

RPs are allowed to apply a discretionary adjustment to the target rent of plus or minus 5% for general needs properties and plus or minus 10% for sheltered and supported housing properties.

An example of how a rent is calculated is shown below.

CALCULATION OF TARGET RENT USING A TWO BEDROOM HOUSE AS AN EXAMPLE

Calculation Data for an RP:

National Average Rent at April 2000	£53.50
Local Manual Earnings 1997-99 (Lincolnshire)	£286.70
National Average Earnings 1997-99	£316.40
National Average Property Value as at Jan 2000	£49,750
Example 2 bed Property Value as at Jan 1999	£31,290

Base Calculation:**Earnings Element (70% of rent):**

Local Earnings / National Earnings (£286.70 / £316.40)	=	0.9061
Multiplied by the National Average Rent	x	£53.50
Multiplied by bedroom weighting (2 bed)	x	1.0
Multiplied by 70%	x	70%
Earnings Element	=	£33.93

Property Element (30% of rent):

Local Value / National Value (£31,290 / £49,750)	=	0.6289
Multiplied by the National Average Rent	x	£53.50
Multiplied by 30%	x	30%
Property Element	=	£10.09

FORMULA RENT (£33.93 + £10.09) = £44.02

Plus discretionary adjustment 5% (max 5% general needs, 10% sheltered and supported) + £2.20

TARGET RENT = £46.22

The Target Rent is then increased each year for inflation as follows:

Target Rent for Year Commencing	Increase applied	Weekly Rent
April 1999		£46.22
April 2000	2.1%	£47.19
April 2001	RPI 3.3% + 1.0% = 4.3%	£49.22
April 2002	RPI 1.7% plus 0.5% = 2.2%	£50.30
April 2003	RPI 1.7% plus 0.5% = 2.2%	£51.41
April 2004	RPI 2.8% plus 0.5% = 3.3%	£53.11
April 2005	RPI 3.1% plus 0.5% = 3.6%	£55.02
April 2006	RPI 2.7% plus 0.5% = 3.2%	£56.78
April 2007	RPI 3.6% plus 0.5% = 4.1%	£59.11
April 2008	RPI 3.9% plus 0.5% = 4.4%	£61.71
April 2009	RPI 5.0% plus 0.5% = 5.5%	£65.10
April 2010	RPI -1.4% plus 0.5% = -0.9%	£64.51
April 2011	RPI 4.6% plus 0.5% = 5.1%	£67.80
April 2012	RPI 5.6% plus 0.5% = 6.1%	£71.94
April 2013	RPI 2.6% plus 0.5% = 3.1%	£74.17
April 2014	RPI 3.2% plus 0.5% = 3.7%	£76.92
April 2015	CPI 1.2% plus 1.0% = 2.2%	£78.61

Boston Mayflower's rents are charged over 48 weeks so the weekly rent becomes:

$$£78.61 / 48 \times 52 = £85.16$$

Note:

Bedroom Weightings are as follows:

Bedsit x 0.8
1 bed x 0.9
2 bed x 1.0
3 bed x 1.1
4 bed x 1.2
5 bed x 1.3
6 bed x 1.4



Equality Impact Assessment Initial Screening

Rent Setting Policy

Name of policy

Rent Setting Policy

Provide a brief summary of the aims and main activities of the initiative: (bullet points)

The aim of the rent setting policy is to set out the organisation's policy for setting rents across Boston Mayflower

Completed by: **Louisa Clarke, Director of Finance**

Date: **15/04/15**

STAGE 1: SCREENING

This stage establishes whether a proposed initiative will have an impact from an equality perspective on any particular group of people or community – i.e. on the grounds of race, religion/faith/belief, gender (including transgender), sexual orientation, age, disability, or whether it is “equality neutral” (i.e. have no effect either positive or negative).

Q 1. Who will benefit from this initiative? Is there likely to be a positive impact on specific groups/communities (whether or not they are the intended beneficiaries), and if so, how? Or is it clear at this stage that it will be equality ‘neutral’ i.e. will have no particular effect on any group? *Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality*

This policy is to ensure that our rent setting calculations comply with all applicable legislation and regulation. Therefore all tenants of Boston Mayflower will benefit from this policy.



Equality Impact Assessment Initial Screening

Rent Setting Policy

Q 2. Is there likely to be an adverse impact on one or more minority/under-represented or community group as a result of this initiative?

If so, who may be affected and why: Or is it clear at this stage that it will be equality 'neutral'? *Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality*

We do not envisage any negative impact within any of our service delivery areas through the implementation of this policy.

We believe that this policy is equality neutral.

Q 3. Is there sufficient data on the target beneficiary groups/communities? Are any of these groups under or over represented? Do they have access to the same resources? What are your sources of data and are there any gaps? *Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality*

There are no target beneficiary groups / communities as such for the rent setting policy.

Q 4. Outsourced services – if the initiative is partly or wholly provided by external organisations / agencies, please list any arrangements you plan to ensure that they promote equality and diversity. *Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality*

This is an internal policy and we are responsible for its implementation.



Equality Impact Assessment Initial Screening

Rent Setting Policy

Q 5. Is the impact of the initiative (whether positive or negative) significant enough to warrant a full impact assessment – see guidance?

If not, will there be monitoring and review to assess the level of impact over a period of time? *Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality*

We do not perceive any negative impact that would warrant a full Equality Impact Assessment.

Should any negative impacts be highlighted through implementation then both our Policy and EIA will be reviewed.

Q 6. To be completed at six monthly review Detail actions taken to assess the level of impact over a period of time, or to address any gaps in data.

Please consider all aspects of Diversity including as a minimum: Age, Disability, Gender/Transgender, Race/Ethnicity, Religion/Faith/Belief, Sexuality