Rent setting
Policy

Summary:
This policy sets out Genesis Housing Association’s approach to rent setting and rent increases and decreases for all properties.

The policy sets out how we will calculate and charge rents for each tenure type provided by Genesis with the exclusion of ground rent for freeholders.

The policy is reviewed annually to reflect any changes to regulation, legislation and organisation requirement.

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Planned review date: 01 November 2017

Who to contact: Rents and Receipts Manager

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1. Purpose
The purpose of this policy is to:

- ensure compliance with the government’s rent restructuring regime including the requirement to reduce social rents by 1% each year between 2016 and 2019
- ensure that rent levels are set to enable us to meet our obligations to our customers, maintain our housing stock and to remain financially viable, and
- maximise funding available for the provision of new homes by converting a number of properties from assured rent to an affordable rent at re-let as directed by our Assets and Investment management team.

2. Definitions
- Social rent – a term that’s used to describe rents that are lower than similar privately rented properties
- Affordable rent – a social rent product charging up to 80% of market rent
- Intermediate Market Rent – a non-social rent product charging up to 80% of market rent
- Target rent – Introduced in 2002, registered providers were required to attribute a target rent to each of their social housing properties
- Formula rent – Introduced in 2013, this is the government policy for rent controls previously referred to as target rent
- LHA – Local Housing Allowance
- DWP – Department of Work and Pensions
- CPI – Consumer Price Index
- RPI – Retail Price Index
- RICS – Royal Institute of Chartered Surveyors
- IAP – Investment Appraisal Panel, an internal Genesis committee that approves investments

3. Basis of rent setting
The rent standard as set out by our regulator defines our rent setting obligations for all social housing rents. Further information regarding the rent standard can be found in appendix A.

4. Rent setting policy statements
The following section outlines the principle basis of charging rent for different tenure types within the Genesis property portfolio.

4.1 Assured Tenancies
Assured tenancy rents will continue to be reduced by 1% in line with the Government guidelines.

Assured tenancies in Care and Support will be reduced by 1% from April 2017.

4.2 Affordable Rent
An affordable rent for a property will be reviewed where a tenancy has ended or where the tenant is to be granted a new fixed term tenancy.

We assess the market rent level for the property and charge rent in line with the affordable rent percentage levels agreed with the local authority. We operate across a number of boroughs where rents vary considerably.
Details of the agreed affordable percentage levels by borough can be found in appendix C.

Affordable rent levels will vary by each local authority depending on a number of factors, including:

- average market rent
- average income levels in the area
- the impact of the benefit cap
- any local circumstances which may be agreed with our local authority partners.

We ensure the affordable rent and service charge costs for the property do not exceed the LHA level using Valuation Agency Office guidance on http://lha-direct.voa.gov.uk/search.aspx

Affordable rents for existing tenancies will continue to be reduced by 1% in line with the Government regime.

From time to time it may be necessary to deviate from the approved rent levels in order to ensure the viability of a new scheme. Any such decision will be made following review at IAP and will not exceed 80% market rent.

**4.3 Discount and Capped rent**

Discount and Capped rent models have been used for setting rent for affordable homes within new development properties ready for market from April 2016. A new funding programme will be published in December 2016 which will be effective from April 2017.

For discount rented properties, we assess the market rent the individual property would achieve and set the initial rent (inclusive of service charges) at 80% or, where it would be lower, at the LHA level for the area in which the property is located.

For capped rent properties, we assess the market rent the individual property would achieve and set the initial rent at (inclusive of service charges) at no more than 50% of local market rents.

In assessing the market rent level for any property we use the standard RICS valuation method taking into account the individual characteristics of that property, such as number of bedrooms and communal facilities.

**4.4 Secure Tenancies**

Secure customers retain their ‘fair rent’ protection under rent restructuring.

Fair rents are re-registered every two years by the Valuation Office Agency. If a rent officer sets a fair rent below the formula rent, this lower rent will prevail. If the rent officer sets a fair rent above the formula rent, we increase the rent to the formula rent level, providing the customer with one months’ written notice of any increase.

We aim to re-register fair rents in batches, for example all properties on the same street with the same number of bedrooms, rather than individually, to ensure that tenants living in the same locality receive an updated registered rent at the same time.
4.5 Temporary Housing
Temporary housing assured short hold tenancies allow for an annual review in May.

For rent setting and rent increases Genesis will follow the subsidy cap guidance, including reference to the local housing allowance, which has been published by central Government.

Should there be any change to the above guidance, we will review the portfolio and recommend appropriate action to ensure business continuity.

From April 2017, the management fee for temporary housing will not be paid through housing benefit. New systems will be put in place for local authorities to allocate subsidy themselves. In some instances local authorities may allow us to set or increase the management fee achievable.

4.6 Market Rent
(a) The market rent for a property will be set using a RICS recognised methodology as required by the Housing Regulator’s Tenancy Standard. The RICS valuation will determine the base line rent for the property, however rent levels will be set higher if market research suggests higher figures could be achieved.

We will obtain current market estimations for similar properties in the area by consulting with local estate agents. We will consider a number of factors when comparing properties such as postcode, the condition of the property, the number of bedrooms and communal facilities to determine market value.

(b) The market rent for properties let on a 12 month tenancy will be reviewed at the renewal date and increased in line with the criteria set out in (a)

(c) The market rent for properties within new build schemes with tenancies of up to 4 years will be subject to a rent increase rate negotiated between the parties on an annual basis. Increases will take effect from 1st June each year.

(d) The market rent for properties let within a new build scheme with tenancies of 5 years or more will be subject to a rent increase in line with the RPI + 1% over the period to the previous February (i.e. 4 months before). Increases will take effect on 1st June each year.

(e) In those cases whereby market rented properties are part of an investment arrangement or acquisition, rent reviews and increases will be subject to individual clauses within the contractual agreements.

4.7 Intermediate Market Rent (IMR)
IMR rent will be set at up to 80% of market rent levels which will be determined using the methodology detailed in section 4.6 (a).

We will review IMR rent levels in April each year, but not within the first year of the tenancy. Any increases will be limited to CPI + 1.0%.

We ensure any increase applied to the rent does not exceed 80% of the market value.
4.8 Shared Ownership
The total annual rent for shared ownership homes will be calculated at 2.75% of the unsold share at the time of purchase. The purchase price for a property will be determined using a RICS recognised methodology as required by the Housing Regulator's Tenancy Standard.

The rent will be reviewed in accordance with the rent increase mechanism stated in the individual lease.

All shared ownership rent from April 2015 will be increased by the greater of:
- 0.5%
- February RPI/ previous years’ February RPI (12 month rate) + 0.5%

Shared ownership rent increases for properties acquired from any other future acquisitions will be subject to the terms of the lease agreements Genesis inherits.

If the lease terms are unavailable we will assume a default position of applying an increase annually in April using September RPI + 0.5%.

4.9 Commercial and Offices
Commercial and office space rent levels will be set according to a red book valuation determined by a RICS valuation report from an appointed independent surveyor. Genesis will always embark in commercial negotiations using the red book valuation as the industry benchmark to determine current market value.

Commercial leases containing agreed regular rent reviews will be assessed according to a red book valuation determined by a RICS valuation report from an appointed independent surveyor. The rent will be reviewed as per the agreed rent review frequency dates in the agreed occupational agreements.

Individual leases will confirm the basis of the new rent and its review requisites (RPI increase, open market review or agreed increases).

Unless stated in the lease, Genesis will reserve the right to demand rent and interests payable on late reviews as per the agreed rent review memorandum between landlord and tenant.

4.10 Licences
Properties where a licence is issued for a room in shared housing are excluded from Central Government policy on social rents (formula, or target, rents), as agreed with the regulator (then the Tenant Services Authority) in December 2010.

Genesis will set accommodation charges for premises let on licences based on a negotiated agreement between the relevant Head of Operations and the local housing authority including, where possible, the Housing Benefit Manager.

Our Strategic Planning and Change Manager and the care and support Finance Partnering Manager are jointly responsible for authorising the proposed rent charges for all licences for care and support customers.
The decision to increase accommodation charges for premises let on licences is delegated to the Care and Support Director and the Deputy Chief Executive.

4.11 Other permanent social housing properties
For properties which are not subject to rent restructuring or individually negotiated terms (e.g. keyworker schemes, student accommodation) the increase limit of CPI + 1.0% will be applied.

Rent increases will be assessed annually in April and are dependent on individual contracts held for the property.

5. Adjusting individual rent levels
Where we identify an error in rent calculation we will adjust the rent and calculate the difference using the date that we became aware of the error. An adjustment could result in either credit or debit on a customer’s account. Errors in rent calculation include occasions where we identify that the incorrect number of rooms has been used to calculate the rent.

6. High Income Social Tenants and Pay to Stay scheme
The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 state that households which meet the income qualification criteria will be excluded from the 1% rent reduction. The household income qualification is currently £60,000. The HCA Rent Standard also allows providers to apply a different rent setting policy for these high income social tenant households. We will not apply a different rent setting policy to high income social tenant households. We will not implement a Pay to Stay scheme during the 2017-18 financial year.

7. Legislation, regulation and guidance
   - Housing Benefit (general) Regulation 1987 (as amended).
   - The Assured Tenancies and Agricultural Occupancies (Forms) [amendment] {England} Regulations 2003.
   - Welfare Reform and Work Act 2016
   - Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016
   - Homes and Communities Agency Rent Standard
   - Housing and Planning Act 2016
Appendix A – Basis of rent setting

The Homes and Communities Rent Standard defines our rent setting obligations.

Each individual property has a formula rent. The formula 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. In assessing the value of the property we will use a standard RICs valuation method.

70% of sector-average rent in 1999/2000 multiplied by relative county earnings (i.e. local average county earnings over national average earnings), multiplied by a weighting depending on number of bedrooms, plus 30% of sector-average rent multiplied by relative property value (i.e. the value of the property over average national property value at January 1999).

Formula rents will be set each year in accordance with government guidance and will include the permitted additional tolerance of plus 5% for general needs units and plus 10% for supported units. This applies to both secure and assured tenancies, with secure tenancies subject to additional rules described in Section 4.

Formula rents are capped by the number of bedrooms and these are uplifted each year to minimise the impact of high property values on affordability for tenants. For secure tenants we will also take the registered fair rent limit in to consideration when applying rent increase.

Once reached, the target rent is increased or decreased each year by the guideline limit.

In 2017, the target rent will be decreased by 1% to allow for new customers moving in to receive the 1% decrease, as per the Government’s summer 2015 budget paper.

The guidance allows for a number of specific exemptions, such as shared ownership properties, student and key worker accommodation. A full list of exclusions is contained within the guidance - Rent Influencing Regime, Implementing Rent Restructuring.
Appendix B – Legislative background

In April 2002, the Government implemented a standard formula for setting social housing 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 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.

The Government issued a new Rent Direction to the Regulator in November 2011 allowing for tenancies that had not achieved the target rent by 31 March 2012 to continue to converge towards target rent, using the guideline limit of September RPI + 0.5% plus up to £2 a week, based on a 52 week year.

In 2011, the Government also introduced the Affordable Homes Programme allowing housing providers, like Genesis, to charge affordable rent for new lets and relets. Affordable rent is defined as at up to 80% of market rents. Affordable rents are not governed by rent restructuring.

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. In the 2013 Spending Review Government announced changes to rent policy. In addition, in the 2013 Budget, changes were announced which would permit registered providers to charge up to market rent levels to tenants earning high incomes.

In April 2015, legislation changes were implemented as follows:

- the guideline limit for annual rent increases used was CPI +1% rather than RPI +0.5%
- ending upward convergence of rents by means of adding up to £2 a week
- permitting flexibility in rents to be charged to high income social tenants

In the summer 2015 budget, it was announced that all social housing providers will be required to reduce social rents payable by individual tenants by 1% each year between 2016 and 2019. The rent baseline used will be the rent payable on 8 July 2015.
## Appendix C – Guide on Affordable rent levels by borough

Affordable rent levels approved with local authorities in 2011

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>Studio/1 bed</th>
<th>2 bed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barking and Dagenham</td>
<td>80%</td>
<td>80%</td>
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<tr>
<td>Barnet</td>
<td>80%</td>
<td>70%</td>
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<tr>
<td>Brent (Inner North London)</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Brent (North West London)</td>
<td>80%</td>
<td>70%</td>
</tr>
<tr>
<td>Camden (WC1 AND NW1)</td>
<td>55%</td>
<td>45%</td>
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<tr>
<td>Camden Other</td>
<td>65%</td>
<td>55%</td>
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<tr>
<td>Ealing</td>
<td>80%</td>
<td>70%</td>
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<tr>
<td>Hackney</td>
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<td>Haringey</td>
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<td>Harrow</td>
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<td>Newham</td>
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<td>Redbridge</td>
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<td>Tower Hamlets</td>
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<tr>
<td>Waltham Forest</td>
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<tr>
<td>Westminster</td>
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<td>45%</td>
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<tr>
<td>Croydon</td>
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<td>Enfield</td>
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<td>70%</td>
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<tr>
<td>Hammersmith &amp; Fulham</td>
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<td>Wandsworth</td>
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