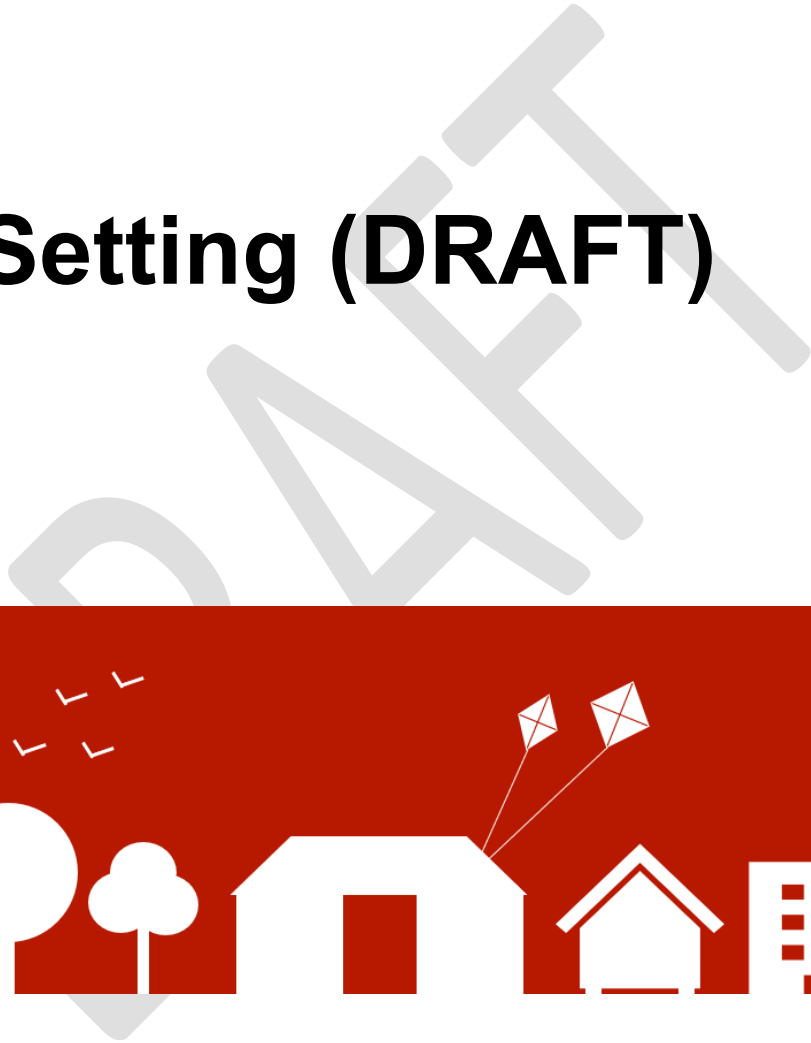




WOKING
BOROUGH COUNCIL

Rent Setting (DRAFT) Policy



Housing Services

16 October 2024

1. Purpose and Scope

Purpose

- 1.1. Councils who hold housing stock are required to keep a ringfenced Housing Revenue Account (HRA) to record and manage income and expenditure relating to its housing landlord function. The main source of income to the HRA is rent. The rental income is used to pay for the management, maintenance, and investment in Council homes and to cover interest charges relating to HRA debt.
- 1.2. Woking Borough Council has recently produced a 30-year HRA Business Plan. This shows the significant financial challenge faced in meeting our housing obligations, complying with regulatory standards, and ensuring our homes are safe and well-maintained.
- 1.3. This policy aims to provide clarity on how the Council sets and increases rents and complies with statutory and regulatory rent setting requirements for residential properties in its Housing Revenue Account (HRA).
- 1.4. The purpose of the policy is to:
 - Ensure the Council adheres to current government legislation and regulation when setting and agreeing rents.
 - Provide a clear and consistent framework for setting and reviewing rents of all properties accounted for in the HRA and General Fund low-cost rental accommodation.
 - Provide as much financial certainty for the HRA as possible.
 - Maximise the income available to maintain our existing housing stock and in future, to construct and acquire new affordable homes.
 - Support the viability of the 30-year HRA Business Plan.
 - Provide clear guidance for tenants and stakeholders on how the Council will ensure rents remain affordable to tenants across different income groups.

Scope

- 1.5. The policy applies to the following properties:
 - Rented residential accommodation in the HRA;
- 1.6. The Policy does not cover:
 - Ground rents and service charges for leasehold residential accommodation;
 - Shared Ownership accommodation;
 - Properties owned by Thamesway Housing Ltd;
 - Properties leased from Private Sector Landlords;
 - Bed and Breakfast accommodation;
 - Garages;
 - Shops and commercial premises;
 - Service Charges for HRA rented accommodation;
 - General fund owned temporary accommodation.

2. Background

- 2.1. Rent setting is based on the Government's Policy Statement on Rents for Social Housing (2019) and the subsequent Rent Standard (2020 and 2023). The Regulator of Social Housing expects all Registered Providers (RPs) (i.e. social housing landlords), including local authorities, to comply when setting and increasing rent for their social housing stock.
- 2.2. The majority of Woking Borough Council's homes are let at a Social Rent level. Since 2001, these rents have been set using the Government's Formula Rent methodology for each property. This is calculated using the relative value of the property, relative local income levels and the size of the property so that similar and regionally adjusted rents are charged for similar Social Rented properties. Formula rents are exclusive of any service charges.
- 2.3. While the annual rent increases are limited to those prescribed by Government guidance, RPs may increase rents to formula rents on a change of tenancy.
- 2.4. In 2011, the Government introduced Affordable Rent which permits rents (inclusive of service charges) to be set at 80% of market rent. The aim of these higher rents was to generate income to support development of additional social homes. Properties can only be let at Affordable Rent when certain conditions apply. Existing vacant properties may be converted from Formula Rent to Affordable Rent in certain limited circumstances.
- 2.5. From April 2020, the Government has permitted annual rent increases on both Social Rent and Affordable Rent properties of up to Consumer Price Index (CPI) plus 1 percentage point until the end of 2025/26.

3. Rent Policy

- 3.1. The Council will set rents using a fair and transparent approach set out in this policy and in accordance with the Government's Rent Standard and Rent Policy Statement.
- 3.2. Rent setting will support a financially viable HRA, which can meet future spending obligations, including treasury management requirements and capital investment needs within the stock.
- 3.3. The Council follows Government guidance when setting formula rents for its properties (see <https://www.gov.uk/government/collections/rent-standard-and-guidance>). Since 2001, the rent charged for the majority of Woking Borough Council's properties are a Social Rent, based on a formula set by the Government. The method for calculating the formula rent under the Government's Rent Standard is set out on the Policy Statement on Rents for Social Housing <https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020>

Formula Rent

- 3.4. The basic weekly formula rent is equal to:

**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 the relative property
value**

- 3.5. Relative Property Value refers to an individual properties value, divided by the national (England) average property value, as at January 1999 values.
- 3.6. The Council is responsible for setting the 1999 valuations for its properties. The property valuation is usually carried out via a desktop exercise by the Council's Property Services Team and derived from the beacon (indicative rent) values obtained. Where a suitable beacon valuation is not available, a new external valuation process will be carried out.
- 3.7. Exceptions will apply where the Council has refined the accuracy of the valuation, or where it has carried out substantial major works which have materially affected the property value. Any revaluation will be calculated at January 1999 values.
- 3.8. Social and Affordable rents can increase annually, subject to Full Council approval, by a maximum of CPI + 1% in line with the Government's five year rent settlement for the period 2020/21 to 2025/26. The Government will set national rent policy for future years.
- 3.9. Rents will increase annually, generally at the beginning of April. In line with its Tenancy Agreement, the Council will give tenants four weeks written notice of any change in the level of rent and service charges which will normally be payable from the first Monday in April.
- 3.10. Rent caps apply as a maximum ceiling on formula rent, based on the number of bedrooms. If the social rent would be higher than the rent cap for the particular size of property, the rent cap will be used instead.
- 3.11. If an existing property is extended to provide an additional bedroom, then the rent will be revised to reflect the increased property valuation and size, using the Government's Formula rent calculation. Any increase in rent will be chargeable as soon as is reasonable and practical following completion of work.
- 3.12. Rents will be checked at each property relet to ensure property records are accurate and rent set correctly. Where rents are set below formula rent, the rent will be increased on relet to the formula rent.
- 3.13. Service charges are separate to rent, and examples are grounds maintenance and block lighting for communal areas. The council has already unpooled service charges, so tenants pay a contribution to the actual costs for their home/block rather than all costs for the whole borough being pooled and divided between all tenants.

Rent Flexibility

- 3.14. Government allows some flexibility to set rents up to 5% above formula rent for general needs properties and up to 10% for sheltered/supported housing (including extra care) if there is clear rationale for doing so, including taking into account local circumstances and affordability, and following tenant consultation. This is known as “Rent Flexibility”. Where there is intent to let a property using Rent Flexibility, this should be set out in the Rent Policy.
- 3.15. Historically, the Council has made little use of “Rent Flexibility”. However, the 30-year HRA Business Plan highlights the significant financial challenge facing the Council in meeting its housing obligations, complying with regulatory standards and ensuring its homes are safe and well-maintained.
- 3.16. In light of this, the Council intends to apply “rent flexibility” to all relets of its existing HRA homes when they become vacant. The aim is to introduce a 5% uplift above formula rents to both general needs and sheltered housing relets. The Council does not intend to uplift sheltered/supported housing rents by a higher percentage (i.e. 10%) to avoid deterring tenants from downsizing from larger family homes where applicable. The Council will normally apply maximum “rent flexibility” for new build or newly acquired HRA homes to ensure they are viable.

Affordable Rents

- 3.17. Affordable Rents are set at a level which is no more than 80% of the gross market rent valuation for the accommodation, including service charges. This is based on a market valuation obtained in accordance with a method recognised by the Royal Institute of Chartered Surveyors (RICS) or the Local Housing Allowance rate for the Broad Rental Market Areas in which the property is situated.
- 3.18. Affordable Rent properties are accommodation which Homes England or the Government have agreed can be let at an Affordable Rent. They are exempt from Formula Rent requirements set out in the previous sections of this policy.
- 3.19. Any “personal” service charges applicable can be made in addition to any Affordable Rent. These include costs relating to heating, hot water and power provided to an individual dwelling for the residents’ personal use only.
- 3.20. The policy applies to both Government grant funded Affordable Rent homes and homes prescribed as Affordable Rent in a Section 106 agreement in line with the Rent Standard and Capital Funding Guidance published by Homes England. In addition, any local authority intending to charge an Affordable Rent to fund new supply without any other financial support from central Government can seek permission via a letter to Homes England.
- 3.21. Woking Borough Council will normally only use Affordable Rent for any Council new build schemes and/or acquisitions. It will not be charged on re-lets of existing stock. The Council will charge Affordable Rent at levels no higher than the relevant Local Housing Allowance at the time.
- 3.22. To set the initial rent for a new Affordable Rent tenancy, a RICS “red book” valuation will be obtained to establish the gross market rent. Rents will then be calculated at up to 80% of the gross market rent valuation as outlined above.
- 3.23. The majority of Affordable Rents will be reviewed annually in April of each year. A very small number of Affordable Rents have in-year review dates. Rent increases will

be set in accordance with the Rent Standard applicable at the time (currently CPI +1%, based on the previous September's published CPI figure).

- 3.24. Affordable Rent homes that become available for re-letting will require a recent updated RICS gross market rent valuation. Recent for the Council is defined as within 3 months. All valuations obtained will be saved for future rent audit purposes.

Shared Ownership

- 3.25. The Rent Standard does not apply to shared ownership rents, which are governed by the terms of the individual lease agreements, with the rent element usually set as a percentage of the unsold equity.

Approvals

- 3.26. The annual rent increase is considered as part of the Council's budget setting process and is approved by Full Council.
- 3.27. The Strategic Director – Communities (or a nominated officer) will have authority to agree any specific rents for individual properties (for example, the percentage of market rent value for new Affordable Rented homes).
- 3.28. The Strategic Director – Communities (or a nominated officer) will agree all formula Rents that have to be calculated or changed during the financial year outside the annual budget-setting timetable in accordance with this policy.

4. Monitoring and continuous improvement

- 4.1. The Regulator of Social Housing expects all Registered Providers, including local authorities, to have robust systems of internal control in place to ensure compliance with rent requirements, underpinned by high quality data which providers can use to assure themselves, their tenants, and the Regulator that rents are being charged appropriately. The Council's systems will be reviewed and risk of error or omission assessed regularly.
- 4.2. The Council will be subject to regular internal and external audits of its Rent Setting Policy.
- 4.3. The Council will monitor and report on its performance on rent collection quarterly.
- 4.4. This Policy will be reviewed every 3 years and/or be modified as necessary in line with changes to future Council policy, new legislation, regulation or changes to legislative and regulatory framework (including significant changes to benefits systems).

5. Legislation and Guidance

- 5.1. This policy is informed by, and aligned with, the following legislation, regulations and guidance:
- Housing Act 1985 Section 24
 - Landlord and Tenant Act 1985

- Local Government and Housing Act 1989
- Housing and Regeneration Act 2008 (a) Section 197
- Guidance on rents for social housing - Department for Communities and Local Government, May 2014
- Rent Standard Guidance - Homes and Communities Agency, April 2015
- 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 on 26 February 2019 (updated on 14 December 2022)
- Rent Standard 2020 - Regulator of Social Housing, 1 April 2020 (updated for 1 April 2023)