Rent Setting Policy

1.0 Purpose

To set out the Association’s approach in relation to the setting of rents. This approach will comply with the relevant housing guidance (e.g. Rent Standard Guidance), contractual requirements and with the Government’s requirements as set out in the 2016 Welfare Reform and Work Bill.

2.0 Impact Housing’s commitment

The Association is committed to setting rents that comply with relevant guidance and standards, help achieve our organisational commitment to poverty reduction, meet our commitments to lenders, ensure financial viability and achieve value for money.

We will:

✓ Set rents that are affordable to our customers
✓ Ensure that tenants are properly informed on changes to rents
✓ Ensure that tenants are properly consulted on changes to service charges
✓ Ensure that we approach rent and service charge setting in a transparent and open fashion
✓ Ensure that rent setting processes are efficient and effective.

3.0 Linked Documents

1. Process and Flowchart
2. Guidance
3. Appendices
   (1) Chargeable service items.
   (2) Rent Setting Strategy
   (3) Variable Service Charge Policy

Name: Duncan Tilbe
Job Title: Housing Manager
Date Reviewed: October 2016
Next Review Due: October 2017

Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Standard Guidance</td>
<td>One of a set of regulatory standards set by the Homes and Communities Agency. The Rent Standard requires that rents are set in accordance with government guidance and comply with the requirements of each particular standard.</td>
</tr>
</tbody>
</table>
1. Process for Rent Setting

1.0 Introduction

The Association works to clear processes in order to ensure that rents are set efficiently and effectively and comply with the requirements and objectives set out in the Policy and Guidance statements.

2.0 Overview of process

This process sets out the systems, roles and responsibilities for managing rent setting. The process involves a number of teams and staff and requires a strong collaborative approach and effective information sharing in order to achieve the desired policy outcomes.

3.0 Flow chart of process

See flowcharts below

4.0 Detailed process

The arrangements for setting rents are set out below. There are 3 key elements:

- Rents on new developments
- Rents on re-lets
- Rent Reviews

Rents on new developments

As part of the appraisal of a potential new development the Development Team will carry out a feasibility study to determine the rent to be set. The appropriate rent will be determined in line with the Guidance statement (section 1.3) and agreed in discussion with the Housing Options and Neighbourhood Team Leaders.

The rent determined will need to achieve a 30 year pay back and must be approved by the Finance Director. If not approved by the Finance Director the matter will be referred to SMT for a decision.

In identifying the affordable rent that will apply the Development Team will obtain details of the open market rent values using a comparative method, initially at the feasibility stage, and then again at least 10 weeks prior to scheme completion.

Any service charge items will be identified at the feasibility stage and included in the figures presented to the Finance Director for approval. These items will initially be identified by the Development Team and then discussed and agreed with the Neighbourhood or Positive Impact team as appropriate, and Income Management Team before submission for approval. Service Charges will be set in accordance with the Guidance statement.

Once a scheme is in progress/on site the gross rent details will be forwarded by the Development Team to the Housing Options Team and Positive Impact team using the standard 6 weekly update document.
When a firm completion date is known (normally 10 weeks prior to handover), the Development Team will notify the Housing Options Team the confirmed rent and service charge details. These figures will be used in property advertisements by the Housing Options Team.

The Development Team will input the rent details, including service charge breakdowns to the IBS Housing system 2-3 weeks prior to handover. Any service charge details will also be entered to the IBS Service Charge Module.

Rent details, including any service charge breakdowns, will be confirmed to potential tenants during pre-offer interviews/affordability checks and at property viewings. The details auto-fill to the Tenancy agreement on generation of this agreement from Open Housing and will be formally confirmed at the Tenancy sign up meeting.

When creating the new tenancy on the Open Housing system the Neighbourhood Coordinator/Positive Impact worker will assign the correct tenure to the tenancy.

**Rents on re-lets - General Needs**

Rents on re-lets will be re-assessed by the Income Management Team on receipt of notification of a void property (notification is auto e-mailed to the Income Management Team on a termination being input to the Open Housing system).

The team will determine the affordable rent for the property using the comparative method detailed in the Guidance document. This rent will be compared to the social rent for the property and the higher of these figures, including service charges, will normally be set in accordance with the Guidance statement. Where the rent figure is considered unaffordable and will impact on demand and sustainability (e.g. is considerably higher than other rents, considerably higher than the local housing allowance) a lower rent may be set subject to approval by the Finance Manager. The Income Management Team will set the new rent and input to the Open Housing system within two working days of receipt of the termination notification. The revised rent figure should be available for use in property advertisements.

Rent and service charge details will be confirmed to the prospective tenant at the pre-offer interview stage, at the property viewing and in the offer letter. Details will include a full breakdown of any service charge items. Full details of all charges will be included in the Tenancy Agreement and explained at the Tenancy sign up meeting.

Where a vacant property is being re-let to a Fair Rent tenant and that tenant has a retained right to a Fair Rent tenancy i.e. it is that tenants first move, the rent on the tenants previous property will be set on the new property. An application will be made by the Income Management Team for a Fair Rent to be registered at the new property and will be set on the property once registered by the Rent Officer. Where a Fair Rent tenant has moved more than once before, there will be no retained right and a new social or affordable rent will be set as above.

**Rents on re-lets - Supported Housing**

Rents for supported housing accommodation, including extra care schemes, are not changed at re-let unless the void occurs in the specified period prior to the annual review date (see Rent Review section below), or the rent is not in line with the normal charge for the accommodation (see Guidance statement). Checks of the rent at re-let are made by the relevant Positive Impact Service Manager and any changes required notified to the Income Management Team to input to Open Housing. Rent and full service charge details will be confirmed to the new resident during the referral process and again at the sign up meeting.

**Rents on commercial properties and garages**
The Development Team will obtain market valuations for rents on commercial properties (new properties and properties being re-let) and will use the valuation as a basis for negotiation with the Lessee on the rent level to be fixed (see Guidance statement). The Development Team will liaise with the appropriate Neighbourhood Co-ordinator when undertaking any negotiations.

On agreement of the rent level the Development Team will input the details to the Open Housing system and will liaise with the Responsible Officer for leases with regard to production and signing of the lease agreement.

Rents for garages and garage sites being re-let will be re-assessed by the Income Management Team who will determine an appropriate commercial rate.

Rent Reviews

A. Rents

Rents for all properties/tenancies (General Needs, Positive Impact, Shared Ownership, Commercial properties, Garages etc.), except Fair Rent tenancies, are reviewed on an annual basis in line with the approach detailed in the Guidance statement. New new rents are effective from the first Monday in each April. Currently rents on all general needs accommodation will reduce by 1% at each April up to and including April 2019. Rents for supported housing accommodation will reduce by 1% per year from April 2017 to April 2020.

The rent review process is led by the Income Management Team working jointly with the Finance and IT teams. APG will trigger the review process each October. The key stages of this process are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Task</th>
<th>Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early November</td>
<td>Determine level of rent adjustment</td>
<td>Finance/Housing Management</td>
</tr>
<tr>
<td>December</td>
<td>Board considers new rent levels and confirms as part of wider budget discussion</td>
<td>Finance report to Board</td>
</tr>
<tr>
<td>Third week of January</td>
<td>New rent charges spreadsheet created detailing all new charges and imported into Bulkupra and then to Open Housing.</td>
<td>Finance</td>
</tr>
<tr>
<td>Last week of January</td>
<td>Finance forward details of new charges to Income Management to check</td>
<td>Finance/Income Management</td>
</tr>
<tr>
<td>First week of February</td>
<td>Following check of new charges any amendments required made on Open Housing. All target rents re-set on IBS (currently -1% adjustment applied).</td>
<td>Finance</td>
</tr>
<tr>
<td>First week of February</td>
<td>Spreadsheets with new charges forwarded to Housing Benefit Departments and Managing Agents</td>
<td>Income Management</td>
</tr>
<tr>
<td>First week of February</td>
<td>Generate test Rent Review letters</td>
<td>Income Management and IT</td>
</tr>
</tbody>
</table>
Second and third weeks of February
Direct Debit payments revised in line with new charges and forwarded to AllPay
Income Management

Third week of February
Rent review letters generated and forwarded electronically to mailing company to post to tenants. Letters include details of revised direct debit payments, as appropriate. Letters to be sent out at the end of February and must give at least 4 weeks notice of new charges.
Income Management/IT

Fourth week of February
New charges applied to new tenancies
Income Management

Rent review letters are checked each year as part of the review process and tailored to the circumstances of residents. The letters include a full breakdown of the gross charge, including charges for individual service charge items, an explanation of the new charge calculation, any actions required by the resident and full contact details. Letters must be sent in a format appropriate to the resident (e.g. large print, braille, different language, audio).

B, Service Charges

Service charges are reviewed as part of the wider rent review. In addition to the above the following tasks are undertaken relating to service charges:

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<tr>
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<th>Task</th>
<th>Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td>Grounds maintenance and other service charge contract agreements reviewed/re-tendered and prices for next rent year confirmed.</td>
<td>Asset Management (Grounds maintenance)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Finance (Energy costs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Housing Management/Positive Impact</td>
</tr>
<tr>
<td>October/early November</td>
<td>Service charge costs gathered and considered. Variations investigated. Costs confirmed</td>
<td>Income Management/Finance/IT/Positive Impact</td>
</tr>
<tr>
<td>October/early November</td>
<td>Consultation meeting with variable service charge tenants/leaseholders.</td>
<td>Income management/Asset Management/Finance</td>
</tr>
<tr>
<td>Late October/early November</td>
<td>Tenants consulted as appropriate on any proposed changes to service charges i.e. removal of a charge, introduction of a new charge.</td>
<td>Income management/Neighbourhood Team/Positive Impact</td>
</tr>
<tr>
<td>Fourth week of November</td>
<td>New service charges determined</td>
<td>Finance/Income Management</td>
</tr>
<tr>
<td>December</td>
<td>Board considers new rents and service charges</td>
<td>Finance report to Board</td>
</tr>
<tr>
<td>January</td>
<td>Accounts prepared for variable service charges.</td>
<td>Finance</td>
</tr>
<tr>
<td>Third week of January</td>
<td>Letters for consultation meeting sent to variable charge tenants, including</td>
<td>Income Management/Finance</td>
</tr>
</tbody>
</table>
Service charges on Affordable tenures will be reviewed as above but any adjustments will be made in the context of the requirement for a 1% reduction to the Gross Rent (see Guidance statement).

Service charge reviews will be mindful of opportunities to reduce costs and the objective of minimising charges whilst achieving a break even position.

The Rent Review letter will give a full breakdown of any charges detailing each service charge item and the charge for that item.

C, Fair Rents

Fair rents are reviewed outside of the above process. Applications for a new rent to be registered are made by the Income Management Team on a bi-annual cycle, one year and nine months after the last effective registration date. Applications are made on the standard RR1 form issued by the Rent Officer Service.

The new rent proposed will be determined using a formula designed to bring Fair Rents in line with social rents and using the Fair Rent Pro Forma. The fair rent proposed is the target rent plus CPI for 2 years plus 1%.

If an increase in excess of £5.50 per week is registered, then this will be phased in ( £5 applied in the first year and the full increase in the second year).

Where a Fair Rent tenancy includes a service charge, then the new charge proposed will be aligned with the charge to other neighbouring properties receiving the same services. Where the charge only applies to the Fair Rent property, or the service charge breakdown is different to other properties, then costs will be reviewed and a new charge proposed to meet those costs including a 15% administration fee.

Where the rent proposed by the Rent Officer is substantially below the figure proposed by the Association an appeal will be considered. A decision on whether to appeal will be made by the Income Management Team Leader.

5.0 Responsibilities chart

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Board /CEO</th>
<th>SMT</th>
<th>APG</th>
<th>R.O.’s/Managers</th>
<th>All Staff</th>
<th>Specific teams or roles listed</th>
<th>Specific teams or roles listed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Responsibility</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Rent Setting Policy</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting rents and service charges for new developments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Dev Team in consultation with Housing and Asset Manag</td>
<td></td>
</tr>
</tbody>
</table>
### 6.0 Links to other policies and regulations

This process links to the Rent Setting Policy and Guidance statements, the Rent Setting Strategy 2016/17, the Variable Service Charge Policy and the HCA’s Rent Standard

**Name:** Duncan Tilbe  
**Date reviewed:** October 2016  
**Job title:** Housing Manager  
**Next review due:** Oct 2017

### Glossary of Terms

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<td>Accountable Performance Group (senior managers group)</td>
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<td>Affordable Rent</td>
<td>A rent set at 80% of the market value</td>
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<tr>
<td>Commercial rents</td>
<td>Used on non-residential properties let on leases for commercial use e.g. shops, cafes etc.</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
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</tr>
<tr>
<td>DWP</td>
<td>Department for Works and Pensions</td>
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<td>Fair Rent</td>
<td>Some tenants whose tenancy started prior to 15\textsuperscript{th} January, 1989 have Fair Rent tenancies where the rent was set by an independent Rent Officer and where the rent is re-assessed by the Rent Officer every 2 years.</td>
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<td>HCA</td>
<td>Homes and Communities Agency</td>
</tr>
<tr>
<td>Open Housing</td>
<td>Computer housing system holding rent and tenancy details</td>
</tr>
<tr>
<td>Social Rent</td>
<td>Also known as the ‘Target Rent’. Set in line with a formula prescribed by government and taking account of local property values and earning levels.</td>
</tr>
<tr>
<td>SMT</td>
<td>Senior Management Team</td>
</tr>
</tbody>
</table>
2. Guidance for Rent Setting

1.0 Impact’s Guidance

1.1 Rent Reviews

1.11 In accordance with the 2016 Welfare Reform and Work Act the Association will:

- From 1st April 2016 to 31st March 2020 reduce rents by 1% per annum for all general needs housing.
- From 1st April 2017 to 31st March 2020 reduce rents by 1% per annum for all sheltered and where applicable, supported housing.
- The 1% cut will apply to the rent actually charged as at 31st March 2016 provided that the rent increase for 2015/16 was in accordance with the HCA guidance for that year (i.e. either the rent as at 8th July 2015 or the subsequent rent if the 2016/16 increase had not taken place on or before 7th July 2015).
- For Affordable Rent tenancies the 1% reduction applies to the gross rent i.e. inclusive of service charges. For Social Rent properties the 1% reduction applies to the net rent i.e. exclusive of service charges.

The rent decrease for social rents applies to the ACTUAL rent charged and not the underlying target rent. For social rents the underlying target rent will also decrease by 1% per annum.

1.12 The Association will review rents annually and will apply only one review within any 52 week period. Reviews will be undertaken in October/November each year in line with the budget setting timetable and new charges applied from the first Monday in April.

1.13 Rents charged to managing agents, commercial rents, including charges for garages and garage sites, and shared ownership properties will be reviewed annually as per the terms of the relevant management or lease agreement.

1.14 Tenants are notified by letter of reviewed charges at least 4 weeks prior to the new charge applying. The Rent review letter will:

- Detail the new charge, including a breakdown of the full charge
- Explain how the new charge has been calculated
- Detail any expectations e.g. to pay the new charge including any necessary payments off arrears, notify other agencies as required e.g. DWP
- Give clear contact details

1.2 Re-Lets

1.21 Social Rent

A social rent is charged in accordance with the Homes and Community Agencies (HCA) Rent Standard Guidelines and works to target rents. The target rent is based on a formula which takes into account both the value of the property and the earnings level of the local area. A bedroom factor is also applied so that smaller properties will normally have lower rents.

For a social rent property re-let to a new tenant the rent set will be the greater of:

- The formula/target rent for the property (reduced by 1% per annum as from 1st April). The 5% tolerance for formula rents is no longer applicable on general needs properties from 1st April 2016. For supported housing the 10% tolerance is still applicable.
The rent charged as at the 8th July 2015, or if the property was vacant at this date, the rent that would have been charged.

1.22 Affordable Rent

An affordable rent is a rent that is up to 80% of the local market rent inclusive of any service charge that is applicable.

The Association will set an affordable rent on a property re-let to a new tenant where the rent is higher than the social rent, as determined above, and subject to the following:

- The accommodation is a general needs property.
- The affordable rent is not less than the equivalent social rent including service charges.
- The maximum conversion capacity within the development framework agreement with the HCA is not exceeded. The current financial target for affordable rents is an additional income generated of £20238.

The initial market rent exercise was undertaken in 2014 using an independent chartered surveyor and figures are checked at the point of re-let using the comparative method i.e. comparing the rental property with similar properties advertised on sites such as Right Move and Zoopla. This method is in accordance with methods recognised by the Royal Institution of Chartered Surveyors (RICS) and is used for both re-lets and new lets.

Affordable rents are capped using the following rules:

- No affordable rent for an individual property can exceed the social rent for the same individual property by more than 40%
- No affordable rent can exceed the HCA’s rent cap limits

1.23 Fair Rent Tenancies

Fair rent tenancies only apply to tenancies which commenced prior to 15th January 1989

A Fair Rent is calculated using a formula set by the Association to bring the rent in line with the target rent for the property used for setting a social rent. The rent applied for will be in line with the principles for applying a social rent as described above but the actual rent set is subject to the decision of an independent Rent Officer.

1.24 Supported Housing/Positive Impact

Rents on vacant supported housing properties are only checked at re-let to ensure parity with the charge for units within the same scheme. Where a difference is identified then the charge will be adjusted to achieve parity/the charge that should apply.

1.25 Commercial rents

New commercial rents will be set using an independent market value. This rent will not necessarily be applied but will be used as a basis for negotiation which considers lettability and cost benefit.
1.3 New Developments

1.31 The Association will set affordable rents on all new developments under the HCA’s ADP programme. As per 1.22 above, the affordable rent will be set at 80% of the local market rent, inclusive of service charges.

1.32 For non-HCA schemes rents will be set as follows:

- In line with the requirements of any section 106 agreement applicable
- An intermediate rent agreed as appropriate and affordable. Local market rents will be considered as part of this assessment.

1.33 The Association may charge an affordable gross rent below that calculated as per 1.31, for example where the gross rent is considered too high to let within a reasonable time period, or where an agreement not to charge above the local housing allowance either as part of a section 106 agreement or because of affordability concerns. The overall principle is to protect the collectable rental income. Such instances need to be approved by the Finance Director.

1.34 When setting rents for new supported accommodation the Association considers the following:

- Where the rents fall under HCA guidance rents will be set in line with that guidance
- For rents outside of the HCA guidance the rent will be set considering the following factors:
  - The level of income required to achieve financial viability
  - Affordability
  - Local housing allowance caps.

1.4 Service Charges

1.41 The Association uses fixed service charges except at two lease hold schemes (Ladies Walk Brewery, Workington and Lound Place, Kendal). At new developments service charge items are identified and agreed between the Development and Housing Management teams (see Process section of this policy for further details) and charges set to reflect known and anticipated costs. Charges include a standard administration fee of 15%.

1.42 The Association aims to ensure a balance between service charge costs and expenditure, to ensure that only services required are provided but that all chargeable services are charged, and as far as possible to minimise service costs to tenants. Details of chargeable services are attached as appendix 1.

No changes to service provision i.e. the removal or reduction of a service, provision of a new service, will be made without first consulting those tenants affected, and requests from residents to vary services will be properly considered and investigated in discussion with residents.
1.43 Social Rent Tenure Service Charges are reviewed annually and adjusted in line with costs, including adjustments to allow for inflation, subject to the following:

- Consideration is given to capping increases where the level of increase is deemed too high to make in one adjustment. Any cap to apply must be agreed by the Association’s Board.
- An adjustment in line with the existing cost may not be made where that cost will not be reflective of the cost in the next financial year.

1.44 Affordable Tenure Service Charges are reviewed annually, as per 1.43, but will be set together with the rent to achieve the gross rent required. The Association will aim to keep the service charge in line with costs and to adjust the rent element accordingly in order to fix the gross rent at the required figure/in line with government requirements.

1.45 Costs are identified and charges set for each individual item making up a service charge. Tenants receive a full breakdown of service charge items and charges at start of tenancy and are notified of all revised charges in the annual rent review.

1.46 Service charges may be adjusted between annual reviews to reflect any changes in provision. Changes will only be made after consultation with the affected tenants.

1.47 Variable charges are used at Ladies Walk Brewery, Workington and Lound Place, Kendal. The Association will comply with all requirements relating to variable charges including holding an annual meeting with residents to consider the annual service charge accounts and new charges. The Variable Service Charge Policy gives further details of variable charges.

### 2.0 Legal Guidance

The Association will adopt a policy which complies with the relevant guidance e.g. the HCA’s ‘Rent Standard’ and with relevant Housing Act’s including the 2016 Welfare Reform and Work Bill.

### 3.0 Links to other guidance
This guidance links to the Rent Setting Policy and Process statements, the Associations Rent Setting Strategy 2016/17 and the Variable Service Charge Policy.

Name: Duncan Tilbe  
Job title: Housing Manager  
Date reviewed: October 2016  
Next review due: October 2017

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