

# Rent Setting policy

<b>Who's this for?</b>	All customers and colleagues
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<b>Other related documents</b>	Rent procedure Service Charge policy
<b>Legislation</b>	The Rent Standard April 2015 Rent standard Guidance April 2015 Welfare Reform and work Act 2016 Social rent reduction Housing Act 1985 Housing Act 1988 Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016

# 1.0 Policy Statement

Settle's aim is to ensure its rents are set accurately and fairly across all our rent tenures. In this policy, our customer can be our tenants, but they can also be renters of our garages or commercial units.

## Current Position

There are clear processes and procedures in place for calculating rents. This was confirmed by a recent Internal Audit into our rents process.

Rent setting is formally approved by the Board on an annual basis. Regular reactive checks are in place to monitor compliance against the rent standard. These checks have been strengthened through the introduction of additional proactive controls in QLF Finance system and rent setting process.

As of October 2024, 6.55% of our social rents are at Target Rent compared to Oct 2023 when 2.89% were at Target rent. This is due to the Rents being capped at 7% in 2023-24 as the target rent was increased by CPI + 1% which was 11.1%. The rental income 'subsidy' is £5.4m per annum for 2024-25. The current position is that each social rented property is re-let at Target Rent +5% once it becomes available.

# 2.0 Key principles

- Settle will set its rents in a fair and transparent manner.
- All regulated rents will be set with regards to legislation so that the Rent Standard is always complied with.
- Settle is committed to providing affordable places to live but this will be balanced with the need to collect sufficient income to provide an effective landlord service.
- Our customers should know what their rent is and be provided with sufficient time to plan for any changes to their rent.
- Our colleagues can clearly understand the varying approaches to setting rents across our different tenures, when rent changes can be made and the agreed way in which new rents are calculated.
- Where our rents are regulated, we shall always ensure that we operate within the Rent Standard. A rent setting report will be presented to Board annually to seek approval for the rents to be charged for all tenures.

# 3.0 Objectives

Settle's rent setting policy aims to provide clarity to customers and/or colleagues:

- as to how each of our rents are set.
- on the approach to calculating rent charges for new and existing customers.
- on the governance approach for approving changes to rent levels.

## 4.0 Policy actions

In order to achieve the objectives set out in this policy, the following actions need to be undertaken:

### **Customer Care**

All customers will be given at least one month's notice before their rents are changed.

### **Calculation of rents**

Rental charges at the start of a tenancy are determined by the type of tenancy and product being offered with the property.

### **General Needs / Social Rents**

The rent for all tenants when they move into their property (except for those on protected tenancies or those moving into properties where Affordable rents or on a Flexible Rents are applied) will be set at target rent. They will be reviewed and adjusted annually in line with current regulation through the annual review process.

The Government has published guidance for limits on annual rent increases for 2024-25. This guidance provides the formula rent level for 2025-26 as 2.7% (CPI+1%).

When newbuild social rent properties are being let for the first time, target rent will be calculated to include permitted flexibility to 105% of the formula rent.

### **Protected Tenancies**

We have several customers who signed their tenancy with North Hertfordshire District Council, which was signed prior to 2000. The rent at their new property will be set in line with the current charges for that property. They will be reviewed and adjusted annually in line with current regulation through the annual review process.

### **Affordable Rents**

The rent will be set in line with the current charges for that property. They will be reviewed and adjusted annually in line with current regulation through the annual review process. Affordable rents will be set at 80% of market rent. Flexible Rent schemes may be set at up to 80% of market rent when applicable.

### **Temporary Lets (Supported Housing)**

Temporary Let properties currently have licence agreements, therefore the rent increase will be CPI + 1%. They will be reviewed annually and uplifted in line with CPI as of September in the previous year.

### **Intermediate Rents**

Intermediate properties are units where rent is charged at a cost above target rent, but below market levels. Intermediate rent is designed to give customers the opportunity to use the subsidy to save for a deposit to purchase a home within the next five years from the

start of their tenancy. They are let through the Governments 'Help to Buy Scheme' and subject to s106 agreements. The rents are inclusive of service charges.

Rents are to be calculated at 80% of the market rent valuation for the property and will be let on an assured shorthold tenancy for a fixed term of three years.

Each year, the intermediate rents will be reviewed and adjusted by guideline limit of September RPI + 0.5% as documented in the tenancy agreements.

The rent can be rebased, using new market valuation, upon relet or renewal of tenancy to ensure that it continues to reflect the market.

### **Shared Ownership Rents**

Rent on shared-ownership properties will increase every year, usually at a rate of September RPI as allowed by lease agreements. However, where sales are completed within the final quarter of the financial year, (in January, February or March), shared owners will not be subject to the annual rent increase in the April of their first year.

In October 2023, the Government published a policy paper on shared ownership rents reform which includes switching the amount that shared ownership rents can increase by from RPI + 0.5%, to CPI +1%. Any new grant funded shared ownership sale from 12 October 2023 is affected by this change unless it meets certain exemptions.

The exemptions are:

- The scheme has been accepted as a firm scheme and has been allocated funding on IMS as at the 12 October 2023.
- The scheme has been submitted on IMS as a bid prior to 12 October 2023 but is awaiting a decision from Homes England and is subsequently allocated.
- The scheme is either a substitute or an indicative scheme in IMS and the provider is able to evidence that they are in a legally binding contract to acquire and / or develop the site / properties; this legally binding contract needs to have been entered into prior to the 12 October 2023 and commits them to incur Development Costs as defined in the relevant Grant Agreement.

Based on the above, the rent increases for 2025-26 that will be applied to existing shared ownership tenants will be September 2024 RPI + 0.5%. Rents for any new tenants during the 2025-26 financial year will be assessed against the above criteria accordingly.

The rental element of new shared ownership properties is set at 2.75% of unsold equity in line with the Homes England Capital Funding Guide. In assessing affordability for potential new shared owners, Settle will allow some flexibility below this level, subject to specific approval on a scheme by scheme basis.

### **Mutual Exchanges**

All parties will have their rent set in line with the current charges for that property. The rent will be reviewed and adjusted in line with the annual review process.

Where the lease or tenancy does not specify the method of increase to use, or if it does specify an increase, but doesn't specify the month of the RPI to use, then for consistency

with other increases, the RPI for September is used. Both the CPI and RPI data can be obtained from the Office for National Statistics website:

<https://www.ons.gov.uk/economy/inflationandpriceindices>

### **Relets**

Unless there is a specific decision formally agreed by the Executive Team and/or Board, any regulated properties that are relet during the year will be let at the target rent that is held on the rent accounting system against each property, including the discretionary amount of target rent plus 5% for general needs and plus 10% for older person accommodation.

The Finance Service shall update the target rent for each property on the rent accounting system as part of the annual rent setting process.

### **Timing of changes to customer rents**

Rent increases will be implemented by serving a rent increase notification with a minimum of one month before the increase is activated.

All regulated rental properties will continue to have their new rents calculated in advance to commence from the first week in the new financial year.

The Board will be provided annually with a paper that outlines the proposed changes for the forthcoming year based on the inflation figure published by the Housing Regulator. Rental changes will take effect from 1st April of the new financial year.

### **Appeals**

Tenants who wish to appeal against a rent review must lodge their appeal within 28 days of the new rent being charged.

## **5.0 Desired outcomes**

- Settle colleagues have a clear understanding of how and when rents are set.
- Settle customers will receive timely and accurate communication advising them of any changes to their rent.
- The number of Settle properties where the rent is at target rent will steadily increase.
- Where a customer's rent increases, increases are done in a measured way which doesn't materially impact on our customer being able to live comfortably in their home.

## **6.0 Performance indicators**

- % of properties at Target Rent.
- 100% of rents have been set within the rent standard regulations.
- Customer Trust and Effort scores.
- All colleagues will be provided with training on Settle's rent tenures and how rents are set.

## 7.0 Key legislation

- The Rent Standard April 2015
- Rent Standard Guidance April 2015
- Welfare Reform and work Act 2016 Social rent reduction
- Housing Act 1985
- Housing Act 1988
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016
- Limit on annual rent increases 2025-26
- Capital Funding Guide (Published November 2016, updated December 2023)
- Local Housing Allowance (LHA) rates
- Shared Ownership rents reform (DLUHC October 2023)

## 8.0 Monitoring and review

The policy will be reviewed every year or sooner if the legislation or regulations require us to do so.

## 9.0 Publicising the Policy

We will publicise this policy to our colleagues and other applicable stakeholders in several ways which include but are not limited to policy briefings and training.

# Appendix 1: Affordability Gap Guide

The purpose of the affordability gap guide is to facilitate assessment of need in local key markets and to inform rent setting for new homes. This allows Settle to match its new Affordable Rent supply to local need.

When seeking an investment decision, colleagues will include an affordability assessment with their investment recommendation. The approving authority (Settle Board, Development Committee or Executive Team) can then determine whether there is a case to use flexibility within the proposal's financial performance to set Affordable Rents at a different level to the standard % outlined in Settle's rent policy.

Settle will regularly refresh its affordability gap analysis with the aim of determining which income levels are caught between not qualifying for social rent but also priced out of the private rental market.

The template for affordability assessment will include up to four layers through which to see the potential affordability gaps in the local market:

1. The income bands where there is a lack of affordable housing in each location.
2. The specific housing need in each location split into 1, 2, 3 & 4-bedroom units.
3. Assessment of rent levels in each location based on varying percentages of market rent.
4. Assessment of affordability of different unit types at varying rent levels based on a percentage of the household's gross salary (25%, 30% & 35%).