

Report to the Cabinet

Report reference: C-010-2020-21

Date of meeting: 20 July 2020



**Epping Forest
District Council**

Portfolio: Housing and Communities – Cllr H Whitbread

Subject: Housing Rents Policy

Responsible Officer: Jennifer Gould (01992 564073)

Democratic Services: Adrian Hendry (01992 564246)

Recommendations/Decisions Required:

That the Cabinet agrees to the adoption and implementation of the updated Housing Rents Policy which sets out Epping Forest District Council's approach to the setting of rent and service charges ensuring compliance with current legislation, the requirements of the Regulator's Rent Standard and recognised best practice.

Executive Summary:

A Housing Rents Policy is required in order to outline how the Council will calculate, consult and charge rent and service charges for Housing Revenue Account (HRA) owned stock that the Council has responsibility to manage and maintain.

The previous Housing Rents Policy 2016-17 has been updated, resulting in a Housing Rents Policy 2020 which reflects the requirements of the Social Housing Regulator's new Rent Standard which came into force on 1 April 2020.

Reasons for Proposed Decision:

There is a statutory requirement to have a Housing Rents Policy. The purpose of which ensures compliance with government legislation when setting rent and service charges. It also ensures that the HRA does not fall into a deficit position, helps the Council to plan for future investments, and protects tenants from excessive rent increases.

Report:

1. Since 2001, rents for properties let at social rent have been set based on a formula set by government. This creates a formula rent for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. The aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties. The basis of the Government's formula for calculating social rents is:
 - 30% of a property's rent should be based on relative property values compared to national property values¹;
 - 70% of a property's rent should be based on relative local earnings compared to national earnings²;
 - A bedroom factor so that, all other things being equal, smaller properties have lower rents.
2. The Welfare Reform and Work Act 2016 required local authorities and housing associations to reduce their rents by 1% per annum for four years from April 2016. In 2017 the Government announced that, from April 2020, council and housing association social rents could increase rents by CPI (as at the preceding September) + 1% per annum, for a period of at least five years.
3. On 1 April 2020 the Regulator of Social Housing set a new rent standard for all registered providers of social housing, and, for the first time, the Government directed the Regulator to apply its rent standard to local authorities. This is because the previous arrangements for limiting the welfare costs associated with local authority rents (the Rent Rebate Subsidy Limitation Scheme) will not operate alongside Universal Credit.
4. The Rent Standard sets out the basis on which social rents and affordable rents are set.
5. In response to the Regulator's new rent standard it is prudent for EFDC to adopt a formal Rent Policy that sets out how rents are calculated for existing stock and how they will be calculated for new additions to the HRA stock. This ensures a consistency of approach, transparency around rent charges and serves to reassure tenants that EFDC are charging fair and affordable rents.

Resource Implications:

None.

¹ Relative property value means an individual property's value divided by the national (England) average property value, as at January 1999 prices.

² Relative local earnings means the average earnings for the district in which the property is located divided by national average earnings, both at 1999 levels.

Legal and Governance Implications:

The Policy has been written in order to comply with:

- Policy Statement on Rents for Social Housing issued by the Secretary of State on 6 February 2019;
- Direction on the Rent Standard 2019;
- Housing Acts 1980, 1985, 1988, 1996 and 2015; and
- Welfare Reform and Work Act 2016.

The absence of an updated Housing Rents Policy would result in the Regulator of Social Housing issuing a non-compliance notice.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Initial consultation has been undertaken with the Portfolio Holder.

Background Papers:

N/A

Risk Management:

The updating of the Housing Rents Policy ensures compliance with the new Rent Standard 2020. Having this Policy mitigates the risk of rents being set too low so that the HRA isn't self-sustaining (able to repay debt and invest in new stock), or having rents set too high that they are unaffordable.

The Policy ensures that a consistent approach to rent and service charges is adopted by the Council to all residents, regardless of tenure. It does this by following best practice and defining the different elements that need to be taken into consideration when setting both social and affordable rents, and service charges.

The Policy will enable the Council to be proactive in managing risk in relation to rents by ensuring:

- The correct rents are charged for each category of property;
- Rents are increased accordingly in line with CPI levels each year;
- Rent caps are increased accordingly in line with CPI levels each year;
- Service charges are reviewed each year;
- Developments and investments are viable.

Equality Analysis:

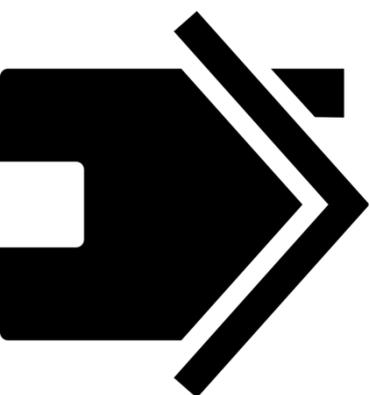
The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided as an Appendix to this report.

1.1.4.2
HP Rent



Housing Rents Policy

2020



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1. Policy statement

- 1.1. This policy sets out Epping Forest District Council's approach to the setting of rent and service charges. It aims to ensure that the Council complies with current legislation, the requirements of the Regulator's Rent Standard and recognised best practice.
- 1.2. The policy aims to ensure that a consistent approach to rent and service charges is adopted by the Council to all residents, regardless of tenure.
- 1.3. The Council aims to set rents and service charges that tenants can afford, and which will enable properties to be well managed and maintained to a high standard, whilst providing new council housing in accordance with council objectives and the aspirations of tenants.

2. Related documents

- 2.1. This policy should be read in conjunction with other relevant policies and procedures published by the Council.

Related documents include:

- Rent Arrears Housing Service Strategy;
- Rent Recovery Policy;
- Rent Setting Procedure; and
- Tenancy and Lease Agreements.

Related legislation includes:

- Housing Acts 1980, 1985, 1988, 1996 and 2015;
- Landlord and Tenants Acts 1985 and 1987;
- Commonhold and Leasehold Reform Act 2002;
- Welfare Reform and Work Act 2016; and
- Direction on the Rent Standard 2020 (MHCLG).

3. Rent setting

3.1. The policy for rent setting varies according to the category of property:

Property category	Rent type
The Council's original housing stock	Formula rent
Sheltered housing	Formula rent
Properties built under the Council's Housebuilding Programme or purchased from the open housing market	Affordable rent
Temporary properties	In accordance with the licence

3.2. The Council's Stronger Communities Select Committee are consulted on the proposed level of change to rents each year before final approval from the Council's Cabinet.

4. Rents policy – social rents

4.1. Background

4.1.1. Since 2001, rents for properties let at social rent have been set based on a formula set by government. This creates a formula rent (also known as target rent) for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. The aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties. The basis of the Government's formula for calculating social rents is:

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

4.1.2. The Welfare Reform and Work Act 2016 required local authorities and housing associations to reduce their rents by 1% per annum for four years from April 2016. In 2017 the Government announced that, from April 2020, council and housing association social rents could increase by CPI (as at the preceding September) + 1% per annum, for a period of at least five years.

4.1.3. On 1 April 2020 the Regulator of Social Housing set a new rent standard for all registered providers of social housing, and, for the first time, the Government directed the Regulator to apply its rent standard to local authorities. This is because the previous arrangements for limiting the welfare costs associated with local authority rents (the Rent Rebate Subsidy Limitation Scheme) will not operate alongside Universal Credit.

4.1.4.

4.2. The Council's Social Rents Policy

4.2.1. In accordance with the Social Housing Regulator's Rent Standard, social rents are charged for all council properties that have not been provided through the Council's Housebuilding Programme (see Affordable Rents section below) or purchased from the open housing market.

4.2.2. Properties let to existing tenants:

From April 2020 all social rents will increase by CPI (as at the preceding September) + 1% each year.

4.2.3. Properties re-let to new tenants:

Vacant properties will be re-let at their formula rent (if they are not already at the formula rent), and not the same rent level as charged to the previous tenant.

4.3. Rent Caps

4.3.1. Formula rent is subject to a rent cap. Rent caps apply as a maximum ceiling on the formula rent and depend on the size of the property. Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap must be used instead.

4.3.2. From 2020-21 onwards, the rent caps will increase by CPI (at September of the previous year) + 1.5% each year.

4.3.3. While the rent caps will increase annually by CPI + 1.5 percentage points, the annual change in rent for the tenant in a rent capped property must still be governed by the CPI + 1% limit on rent changes.

4.3.4. However, where a property whose rent has been subject to the rent cap comes up for re-let (and formula rent remains above the rent cap), the new rent may be set at up to the rent cap level – which will have been increasing by CPI + 1.5%, rather than CPI + 1%.

4.4. Property Valuations

4.4.1. The relative property values used to calculate Target Rents under the Government's Social Housing Policy are based on 'existing use value'. The valuation base was set at January 1999.

4.4.2. The Valuation Office, on behalf of the Council, valued 198 separate beacon properties in 2002 for this exercise. Each beacon property was an example of a main property type owned by the Council in each of the main towns and villages and were representative of the total housing stock. These valuations were then used for all the other similar properties sharing the same characteristics and location. These are not revisited, unless an individual property's characteristics have considerably changed.

4.5. Service Charges

4.5.1. A service charge is a charge made to tenants to cover costs incurred in providing services. Only those services detailed in a tenant's original Tenancy Agreement can be charged for, unless such agreements have subsequently been varied to include additional services.

4.5.2. Social rents can only take into account all property related services and those services that may relate to a group of dwellings. Examples of services covered by social rents include:

- Repairs and maintenance;
- Publicity and consultation;
- Administration of rents; and
- Management of properties.

Examples of services provided to tenants, not covered include:

- Grounds maintenance;
- Cleaning of communal areas;
- Lighting of communal areas; and
- Intensive housing management at sheltered schemes.

4.5.3. Service charges are subject to separate legal requirements and are limited to covering the cost of providing the services. They will be reviewed on an annual basis.

4.5.4. Service charges for the Council's leaseholders are in line with their individual Lease Agreements, based on actual expenditure.

4.6. Housing Related Support Charges

4.6.1. Since April 2003, the Council has separated out from its rents the revenue costs of providing housing related support and made a separate housing related support charge for tenants receiving this support.

- The Council's housing related support covers:
- The Council's Scheme Management Service – whereby the Council's Sheltered Housing Officers provide support to older people in sheltered housing schemes and other housing designated for older people; and

4.6.2. The Council's Careline Service – which provides a 24-hour telecare service.

4.6.3. Until April 2017, the Council received funding towards the costs of providing housing related support. However, this funding ceased in April 2017, and it is the Council's policy to ensure that these services are fully funded from its charges. The Council's Careline Service is self-funded, however the support provided by Sheltered Housing Officers is not fully self-funded. These charges are increased each year in line with the 'Annual Fees and Charges – Housing Related Services' list.

5. Rents policy - affordable rents

5.1. Background to Government and Homes England Policy

- 5.1.1. To enable the Government to significantly reduce the amount of grant required to develop new affordable housing, Homes England, the government agency that funds and regulates all registered providers of housing, requires all new affordable rented homes built by housing associations and councils with grant from Homes England to charge affordable rents.
- 5.1.2. Even if Homes England grant is not provided, in order to minimise the amount of subsidy required from other sources, most housing associations now charge affordable rents for newly developed affordable rented housing.
- 5.1.3. Affordable rents are defined by Homes England as being up to 80% of gross market rents (including service charges). This can be compared to social rents which, very generally, are usually around half the level of market rents.
- 5.1.4. As with social rents, The Welfare Reform and Work Act 2016 required affordable rents to be reduced by 1% per annum for four years from April 2016, after which they are increased annually by a maximum of CPI (as at the preceding September) + 1%, until the property is vacated.
- 5.1.5. On re-let, the rent has to be re-based, taking account of market rents at that time.

5.2. The Council's Affordable Rent Policy

- 5.2.1. Prior to embarking on its Housebuilding Programme, the Council decided that affordable rents should be charged for all new and re-let properties built or acquired under the Housebuilding Programme. This is for two main reasons:
 - To ensure that developments are viable, since they would require even greater subsidy if social rents were charged instead of affordable rents; and
 - To charge similar rents to housing associations for similar newly-built affordable rented properties – i.e. to provide an even playing field.
- 5.2.2. In making this decision, the Council recognised that it would be charging significantly different (i.e. higher) rents for properties built or acquired under its Housebuilding Programme, compared to all the Council's existing properties let at social rents.
- 5.2.3. It was also recognised that it was likely that only applicants with either reasonable incomes or who were in receipt of housing benefit would be able to afford newly built properties, let at affordable rents. This was because working applicants on lower incomes, but who are ineligible for housing benefit, may struggle to pay affordable rent levels, and would therefore be less likely to bid for them through the Council's HomeOption Choice Based Lettings Scheme, and only bid for existing council properties let at social rents.
- 5.2.4. If an affordable rent is charged at a level that is higher than the Local Housing Allowance (LHA) for the Broad Market Rental Area (BMRA) in which the property is situated (set by the Valuation Service, based on the 30th percentile of market rents in the BMRA), the difference between the rent and the LHA cannot be met from housing benefit. Therefore, if a tenant is in receipt of housing benefit, they have to pay the difference between the LHA and the affordable rent themselves.

5.3. The Council's Policy on the use of Affordable Rents is that:

5.3.1. When properties are built under its Housebuilding Programme, they are to be (re)let at affordable rents set at a level equivalent to the lowest of:

- 80% of gross market rents (inclusive of service charges) for the locality in which the property is situated; and
- The Local Housing Allowance level for the Broad Rental Market Area in which the property is situated.

5.3.2. To comply with the Welfare Reform and Work Act 2016, affordable rents were reduced from April 2016 by 1% per annum for four years, and then increased annually from April 2020 by CPI (as at the preceding September) + 1% until the tenant vacates;

5.3.3. When an affordable rented property is vacated and re-let, the rent will be re-based in accordance with the Homes England's Affordable Rent Model and (i) above;

5.3.4. This policy is applied to both:

- Financial appraisals for potential developments; and
- To the actual rents charged for properties when they are let, in relation to the market rents and LHAs applicable at that time.

5.4. Broad Market Rental Areas

Epping Forest has three Broad Market Rental Areas (BRMAs) used to assess Local Housing Allowances (LHAs):

- Harlow and Stortford: covering Epping, North Weald, Ongar, Willingale, Nazeing, Sheering and Matching Green.
- South East Herts: covering Waltham Abbey.
- Outer North East London: covering Loughton, Chigwell, Theydon Bois, Abridge, Buckhurst Hill and Stapleford Abbots.

6. Rent weeks

- 6.1. The Council will charge rents for 52 weeks a year. In those years where a 53rd rent week occurs, rent will be charged for the additional week in that year.

7. Temporary properties

- 7.1. The Council has a number of properties designated for use as temporary accommodation. These properties are let on licence and the rent is reviewed annually each April in line with CPI (as at the preceding September) plus 1%.

8. Review and monitoring

- 8.1. This Housing Rents Policy will be reviewed by the Council's Stronger Communities Select Committee following five years of operation in consultation with the Epping Forest Tenants and Leaseholders Panel, who shall recommend any changes to the Council's Cabinet.

Version Control

Version no.	Date	Details of changes included in update	Author
1	2017	Publication	Director of Housing
2	April 2020	Review	Housing Strategy Team Manager

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