

RENT POLICY

Customer and Home Committee February 2024

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Review date February 2025

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1.0 Background

1.1 In 2002 the Government introduced a single method of setting rents (the 'Rent Influencing Regime'), based on the same rent 'formula' known as Target Rents. This meant that the rent for all housing association and local authority properties should reflect the relative property value and the relative average income of people living in the same county. In 2011 the government introduced 'affordable rent' permitting rents inclusive of service charges to be set at up to 80% of market rent where homes are delivered under a housing supply delivery agreement between The Cambridge Housing Society Limited (CHS) and Homes England.

1.2 This policy covers rent setting for all CHS housing stock, except shared ownership which has a separate policy and is excluded from the Rent Standard. CHS must set rents and service charges in accordance with the government's Policy Statement on Rents for Social Housing 2022 and the Regulator's 2020 Rent Standard (which was replaced for 2023 only by the 2023 Rent Standard).

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1.3 The RSH Rent Standard of 2020 is expected to be in effect until 2025. The Standard sets an annual inflation increase of no more than the Consumer Prices Index (CPI) for September of the preceding year, plus 1%. Any mention of CPI in this policy refers to the same value i.e. preceding September. The 2020 Rent Standard follows the Government's Direction to the Regulator of February 2019, published alongside a comprehensive policy statement that covers rent setting in both private registered providers and local authorities. The Rent Standard was revised in 2023 to apply a cap on general needs social and affordable rent increases below CPI plus 1% for one year only.

1.5 CHS is committed to ensuring that the rent levels charged for all homes provide value for money by delivering good quality services with high levels of customer satisfaction. CHS is also conscious of the need to balance the affordability of rents with its ability to provide critical services for residents and to invest in new and existing homes.

2.0 Social Rent - CHS's approach to calculating Formula rents

2.1 Social Rent Flexibility

Target rents first introduced in 2002 are now known as Formula Rents, which places an upper limit on the social rent (excluding service charges) that can be set for the initial rent on a home when it is let. CHS uses the flexibility contained in the Rent Standard 2020 to set rents at up to 5% above the formula rent (10% for supported housing¹). When a home with a social rent is re-let, the rent will be set at the 105% or 110% formula level using the permitted flexibility. As required by the Rent Standard, The CHS rationale for using this flexibility is:

¹ Supported housing is defined in the MHCLG Policy Statement on rents for social housing - it covers all schemes defined by CHS as supported housing including sheltered and extra care housing.

- The cost of future capital works/component replacements are increasing significantly. The flexibility will allow CHS to incrementally increase the resources it is able to commit to deliver its Asset Management Strategy as informed by the updated Stock Condition Survey and particularly to contribute towards our obligations to reduce the carbon emissions from our homes as well as continuing to develop new homes and provide a range of other community support services.
- Using the flexibility will have no impact on existing tenancies and CHS's social rents will continue to be significantly lower than Local Housing Allowance levels and to be fully eligible for Housing Benefit / Universal Credit. Affordable rents are not affected.

2.2 Valuations of properties for general needs housing

The valuation of a property as at January 1999 is used in the calculation of a formula rent.² In accordance with the Rent Standard, valuations will be in accordance with a method recognised by the Royal Institution of Chartered Surveyors (RICS). Properties were valued by a professional valuer on the basis of January 1999 vacant possession values and continued residential use. This is known as Existing Use Value (EUUV). Valuations are based on archetype properties and common value areas. CHS policy is to use valuations in the **medium to high** range.

Professional valuers claim to be accurate to within 10%. If a customer wishes to complain about the valuation and consequent rent that their property has been given, CHS would only agree to amend these figures if a valuer can demonstrate that a particular valuation is incorrect by more than 10%.

2.3 Valuations of properties for sheltered, extra care schemes and supported housing

For these categories of housing two alternative valuation methods are used. For simple supported housing (i.e. a property similar to a general needs home) CHS has used the same valuation method as general needs housing i.e. Existing Use Value (EUUV). CHS has used the alternative method Depreciated Replacement Cost (DRC) for valuing its purpose built/adapted or specialist supported housing. The DRC method calculates the cost of rebuilding the building, then increases this value if the building is wheelchair accessible and/or has new lifts, then decreases this value if the building is unmodernised. This gives a modified rebuild cost, to which the value of the land is added. The methodology requires only two figures – the size of the building (for the rebuild costs) and the size of the land (for the value of the land).

2.4 Annual reviews of Formula rents

Once calculated, the formula rent for each home is adjusted annually by CPI+1%. The formula rent is subject to a rent cap which sets a maximum ceiling on the social rent, the amounts of which have been published by the Department for Levelling Up, Housing and Communities and is increased each year by CPI+1.5%. CHS will check each year that no Formula rent exceeds this rent cap.

3.0 CHS's approach to setting Affordable Rents

3.1 CHS sets the initial rent for Affordable rents (including service charges) at the Local Housing Allowance (LHA) level or 80% of gross market rent, whichever is lowest. Although CHS tenancies are not subject to the Local Housing Allowance for housing benefit or

² The calculation methodology is set out in the Policy statement on rents for social housing published by the Ministry of Housing, Communities & Local Government in February 2019.

Universal Credit claims, this policy complies with the Rent Standard requirement to have regard to the local market context, including the relevant LHA. CHS will also ensure that no Affordable Rent is lower than the Formula Rent for the property as required by the Rent Standard. We will do so by comparing the Affordable Rent with the Formula Rent for an equivalent property and if necessary carry out a formal valuation to provide assurance.

3.2 In accordance with our Homes England Investment Partner status we will annually monitor market rent levels to ensure that the gross rent charged each time a new tenancy is issued remains at no more than 80% of gross market rent (i.e. inclusive of service charges) and where necessary rebase such rents when relet to 80% of market rent. As it is not government policy to cap welfare costs to the LHA rate for registered providers it will not be necessary to reduce actual rents for existing tenancies should the LHA rent be reduced, or if the rate of LHA does not keep pace with annual rent increases of CPI+1%. Similarly if the 80% market rent is re-assessed at a level below the rent being charged to existing tenants, it is not necessary to reduce the rent until the same home is re-let.

4.0 Annual rent reviews

4.1 CHS will comply with the Rent Standard (April 2020) and increase actual rents for both social rents and gross affordable rents each April by no more than CPI+1% annually.

4.2 **Social rents** (excluding service charges) for existing tenancies will change by CPI+1% so long as this remains below the 105% or 110% Formula rent for the home. Where the existing rent exceeds the (105% or 110%) formula the rent will only increase each year by CPI rather than CPI+1% until the rent is brought back into line with the formula or until it is relet, in which case it will be set at the 105% or 110% Formula Rent. In 2024-25 many actual CHS rents remain below the formula rent; this gap will only be closed by re-letting a social rent home at the formula rent.

4.3 **Affordable rent** (including service charges) - annual increases will be limited to CPI+1% . While the Rent Standard requires the gross rent for new tenants to be limited to 80% of market rent, CHS aims to ensure that the gross rent (including service charges) does not persistently exceed 80% of the market rent for any existing tenancy, while recognising that market rents and service charges may fluctuate from one year to the next. CHS checks the market rent levels for all Affordable Rent schemes annually in advance of the rent review process to monitor where the gross rent (including service charges) may exceed 80% of market rent. Such reviews are carried out by external valuers using a method recognised by the Royal Institution of Chartered Surveyors. We instruct local valuers to assess these market rents for each new scheme to ensure new tenancies do not exceed 80% market rents. These initial valuations are based on the specific design and location of the scheme. A database is kept for annual comparison to support any decision to cap the gross rent at 80% of market rent rather than the LHA rate.

4.4 It is likely that in some years the revised gross rent for existing tenants, having been increased will exceed the LHA or 80% market rent – either due to the LHA not keeping pace with CPI+1% or reductions in market rent values. Conversely, the LHA/80% market rate in one year may increase by more than CPI+1%. CHS must cap these gross rents at 80% of market rent for re-lets in any case; however it will also monitor the impact of such discrepancies compared with LHA rates annually for existing tenancies. Financial constraints may prevent consideration of a freeze or reduction in the basic rent however where possible CHS will restrict the rate of increase to below CPI+1% for those homes where the

discrepancy becomes significant (usually a variance of more than 5% above the LHA level). Any adjustment would only be made each April in the normal rent review cycle.

4.5 The following table summarises the different approaches to be taken depending on the rent type:

	Social Rents (net rent only)	Affordable Rents
First let or relet general needs	105% Formula rent.	Gross rent set at lowest of LHA level or 80% market rent.
Relet sheltered, extra care and supported housing	110% Formula rent	N/A
Existing Tenancy – annual review	Change by CPI+1% annually (CPI only where current rent exceeds formula rent)	Change gross rent by CPI+1% annually. Review gross rents annually to identify where new gross rent exceeds 80% Market rent or LHA, consider how to address where variance exceeds 5%.

4.6 Where a new tenancy begins in late February / March such that the usual one month's notice of an increase cannot be given, the new tenant will be asked to sign a letter to agree to the new rent from the first Monday in April.

5.0 Rent setting for new general needs housing schemes

Where possible CHS aims to develop some new units at social rent levels in order to replace social rented units lost e.g. through asset disposal. However this will usually not be possible due to market factors and competition for new development sites. Typically therefore CHS will charge rents (including service charges) at the Local Housing Allowance or 80% of market rent (whichever is lower), in order to ensure a scheme's long term viability.

6.0 Rent setting for properties that have been improved

Standard planned maintenance works such as kitchen and bathroom upgrading will not result in a revaluation given the general nature of the valuation process. However, very major works such as the complete remodelling or substantial renovation of a scheme or individual property would give rise to new Formula Rents. CHS will revalue properties and revise Formula Rents when improvements are carried out which lead to an average estimated increase in property value of £7500 or more.

7.0 Rent setting for Fair Rent properties

Residents who benefit from Rent Act protection retain this under the Rent Standard (38 remaining tenancies at February 2024).

Where a property is occupied by a secure tenant CHS applies to the Valuation Office Agency (VOA) every two years for a Fair Rent. The rent applied for will follow the same rules as for Assured tenancies. If the VOA sets a Fair Rent below the figure applied for, this lower rent will prevail. If the VOA sets a Fair Rent above the figure applied for then CHS charges the lower figure in line with Assured tenancies, to ensure that our Fair Rents never exceed social rents for Assured tenancies.

8.0 Formula rents for supported housing (including sheltered and extra care housing)

CHS's policy is to set policy Formula rents for supported housing with the maximum discretion of 10% above the formula rent generated by the Government's method. As for general needs housing, where there is a change of resident CHS will set the new rent in accordance with the 110% Formula Rent at the time. CHS ensures that any charges for additional services are identified separately from rent and reflected in variable service charges with annual reviews to meet actual costs. CHS also provides accommodation for Looked After Children which is treated as a care home under the Care Standards Act, although not registered; and exempt from the Rent Standard.

9.0 CHS's approach to setting rents in Agency Managed supported housing properties

9.1 Where a property is agency managed and unregistered under the Care Standards Act 2000³, the rent paid by the residents to the managing agent will comply with the Rent Standard using formula rents and a maximum increase of CPI+1%. CHS calculates these annually and informs the managing agent in February each year of the correct charges to apply no sooner than 1st April. The agent is required to charge this rent, which must be closely monitored as it is CHS's responsibility to ensure the Rent Standard is met.

9.2 Where the property is agency managed and registered under the Care Standards Act 2000 it is exempt from the RSH Rent Standard.⁴ The agent covers its housing management costs and voids out of the income it receives as care home fees. This rent charged by CHS is recorded in the management agreement and is inflated annually by CPI + 1%. The management agreement details when CHS informs the agent of the new rent. CHS reviews the rent once a year and it is varied on 1st April. If the rent ceases to adequately cover CHS's required return, CHS agrees a new rent with the agent to cover CHS's costs.

9.3 Where a property is leased to a non-registered provider the Rent Standard does not apply. However, the lease fee is increased annually by CPI + 1% and CHS monitors the charitable objectives of the provider to ensure that they are within the scope of CHS's vision and mission⁵. Where a property is leased to a registered provider the Rent Standard applies and CHS monitors its application⁶.

10.0 Intermediate rents for designated keyworkers

10.1 CHS owns the long lease of two properties designated by a Nomination Agreement with South Cambridgeshire District Council as being let to keyworkers at an intermediate rent. These rents are exempt from the RSH Rent Standard requirements for social rents, however in accordance with the nomination agreement will be set each year 15% below market rents for similar properties in the same area. Each year CHS reviews local market

³ The schemes currently agency managed and unregistered are An Lac House, Cambridge Women's Aid, ,)

⁴ The schemes currently registered under the Care Standards Act or qualifying as care homes are Pauline Burnett House, 58 Townsend and 335 The Rowans.

⁵ This applies to Cyrenians (various houses) from April 2024.

⁶ This applies to Richmond Fellowship (Madras Road)

rents to ensure compliance with this agreement in advance of notifying the tenants of their new charge. CHS will seek to increase these rents by the same percentage as other general needs tenancies unless it would exceed the 85% of the market rent to do so.

11.0 Service charges

11.1 CHS endeavours to ensure service charges represent Value for Money for customers. Service charges are clearly defined for each property and are restricted to the costs of actually providing services including administration costs. CHS has a separate Service Charge Policy. CHS will endeavour to limit any increases in service charges to CPI+1%, although it is acknowledged that it can be difficult to control some costs which are based on variable factors (e.g. equipment breakdowns, utilities, management companies) and may vary up or down between accounting years. Some contracts result in costs that are fixed for more than one year (e.g. utilities, landscape maintenance) and which may then increase by more than CPI+1% once re-procured. However CHS aims to use procurement processes and customer involvement to optimise value for money for customers. Each year CHS will review the rate of change in overall service charges for every customer, and the causes of any change exceeding CPI+1% in order to prioritise the sites or services that need more work to provide value for money for customers.

12.0 Non-social housing

12.1 From time to time CHS may let homes as non-social tenancies once a home becomes vacant, in order to make good temporary use of stock where it is earmarked for disposal for asset management or other reasons. In such cases CHS will seek to charge the prevailing market rent (or social rent if required to comply with the Rent Standard as a result of previously being categorised as social rent homes), on a shorthold tenancy basis to maximise the available income for the period of the non-social letting.

13.0 Garage rents

13.1 CHS lets a small number of garages which may be let either to CHS tenants or the general public. The rents are based on equivalent garage rents in the private or local authority sector, and increase by at least CPI+1% each year. Market rents for garages will be periodically reviewed to ensure CHS rents are in line with the wider market. Where the garage is let to someone who is not a CHS tenant, VAT is also charged at the standard rate and this is added to the weekly garage charge.