

Executive Board
21 June 2022

Subject:	Rent Policy for Housing Revenue Account Properties
Corporate Director(s)/Director(s):	Sajeeda Rose, Corporate Director for Growth and City Development
Portfolio Holder(s):	Toby Neal, Portfolio Holder for Housing and Human Resources
Report author and contact details:	Graham de Max, Housing Strategy and Partnerships Manager graham.demax@nottinghamcity.gov.uk
Other colleagues who have provided input:	Aisha Bapu, Housing Revenue Account Accountant Mark Lawson, Executive Assistant – Nottingham City Homes
Subject to call-in: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Key Decision: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Criteria for Key Decision:	
(a) <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision	
and/or	
(b) Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Type of expenditure: <input type="checkbox"/> Revenue <input type="checkbox"/> Capital	
Total value of the decision: Nil	
Wards affected: All	
Date of consultation with Portfolio Holder(s): 12 May 2022	
Relevant Council Plan Key Outcome:	
Clean and Connected Communities	<input type="checkbox"/>
Keeping Nottingham Working	<input type="checkbox"/>
Carbon Neutral by 2028	<input type="checkbox"/>
Safer Nottingham	<input type="checkbox"/>
Child-Friendly Nottingham	<input type="checkbox"/>
Healthy and Inclusive	<input type="checkbox"/>
Keeping Nottingham Moving	<input type="checkbox"/>
Improve the City Centre	<input type="checkbox"/>
Better Housing	<input checked="" type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input type="checkbox"/>

Summary of issues (including benefits to citizens/service users):

The Government has rules about how rents for social housing should be set, and has most recently provided these in a policy statement on rents for social housing (2020). Its principles have been incorporated into the Regulator of Social Housing's Rent Standard.

As a stockholding Local Authority, it is important that the Council sets out how it will comply with the requirements of the policy statement and the Rent Standard in the form of a rent policy. In having a rent policy, the Council is bringing transparency about its rent-setting processes, which clearly benefits tenants who are able then to understand how their rents have been calculated and increases applied.

Does this report contain any information that is exempt from publication?

No

Recommendation(s):

1. To approve and formally adopt the Housing Revenue Account Rent Policy.

2. To note that the Policy will be kept under regular review in relation to any new national directives and changes to the Council's approach, and to delegate authority to the Corporate Director for Growth and City Development, in consultation with the Portfolio Holder for Housing and Human Resources, to amend and update the Policy as appropriate.

1. Reasons for recommendations

1.1 It is good practice for social landlords to set out formally how their rents are set and annual increases applied in order to demonstrate their compliance with the Regulator's Rent Standard.

2. Background

2.1 The Regulator of Social Housing has a regulatory framework that ensures that social landlords (both private registered providers and stock-holding Local Authorities) have sound governance and financial practices and that they manage their homes effectively. The regulatory framework comprises three over-arching standards: the Governance Standard, the Economic Standard and the Consumer Standard.

2.2 Given the existing financial and governance arrangements that apply to Local Government, the Governance and Economic Standards do not apply to Local Authority landlords. However, from April 2020, one of the standards within the Economic Standards (the Rent Standard) has been applicable to Local Authorities as well as housing associations. At that point, the Regulator published a revised Rent Standard, which required social landlords to comply with the Government's rent policy, which was issued in 2019. The key element of the policy was that from April

2020, landlords would be allowed to increase rents annually by a factor of the Consumer Prices Index (CPI) plus 1% maximum. This followed a four year period in which landlords had been required to reduce their rents annually by 1%.

- 2.3 The Government's rent policy also sets out what flexibilities can be applied in certain cases, and the different rents which can be applied to social housing, i.e., 'Social Rent' or 'Affordable Rent', and the rules which should govern the setting of these.
- 2.4 Although there is clear guidance on what landlords can and cannot do within the policy, there is some discretion for landlords in the way they set rents, apply annual increases, and use the available flexibilities within the policy to either lower or increase rents in certain circumstances. Given this, and in the interest of consistency and transparency it is advisable for landlords to have their own rent policy which sets out these matters as they apply to their stock.
- 2.5 The Council does not currently have a written rent policy for the properties held within the HRA. It is therefore important that one is put in place in order to demonstrate that the way it sets and increases rents is fully compliant with the requirement of the Rent Standard. The attached policy (Appendix 1) has been drafted by officers within the Council's Finance and Housing Strategy teams, and Nottingham City Homes. It has been independently critiqued by a consultant from Housing Quality Network, and their recommendations incorporated. The policy now needs to be formally signed off by the Council.

3. Other options considered in making recommendations

- 3.1 To not have a written policy: although it is not a statutory requirement to have a rent policy, it is clearly good practice to do so. Not having a written policy would risk inconsistency of approach and a lack of transparency, which rent payers are entitled to. Furthermore, the Social Housing White Paper has made clear that the Government intends to bring much more robust regulation and scrutiny to the sector, including inspections. One of the fundamental ways of assessing landlords will be via the regulatory standards. Demonstrating clear compliance with the Rent Standard is essential preparation for this.

4. Consideration of Risk

- 4.1 Given the current volatility of inflation, it is possible that the Government intervenes in order to limit rent increases next year. Should that be the case, the rent policy allows for the Council to respond accordingly.

5. Finance colleague comments

- 5.1 The proposed Rent Policy establishes the Council's continuing commitment to set rents for its housing stock in full compliance with the requirements and expectations of the 'Rent Standard' issued by the Regulator of Social Housing (RoSH) and 'The policy statement on rents for social housing', issued by the former Ministry of Housing, Communities and Local Government.

- 5.2 The Council's current practice in setting its rents are in line with the proposals as set out in this paper, therefore there are no financial implications arising from the proposals in this policy on the HRA budget and Medium-Term Financial Plan (MTFP).
- 5.3 Social rents are charged for the majority of council homes (97%) and allows for an annual increase of up to CPI plus 1%. The rules include 'rent flexibilities' that may provide the potential to charge additional rent, but as these can only be applied to new tenancies these increased use of these flexibilities has very limited impact on the HRA income levels. The existing use of rent flexibilities has been reviewed and the potential impact of this has been allowed for in the budget for 2022/23.
- 5.4 Affordable rents should be set at 80% of market rent (including service charges) and these account for about 3% of the stock. These will increase annually by a maximum of CPI plus 1% in accordance with legislation, this is consistent with the assumptions in the HRA's MTFP.
- 5.5 Service charges will be set to cover the cost of delivering services, though they are not governed by the same factors as rent, the Council will endeavour to keep annual increases within the limit on rent changes of CPI plus 1%.
- 5.6 In summary, the Policy enables the Council to confirm its commitment to compliance with the Government's Policy statement on rents for social housing and the RoSH's Rent Standard. The impact on the rental income levels of the HRA has been included in the HRA MTFP where known and will be updated annually as part of the Council's budget process.

Comments provided by Julie Dorrington, Senior Accountant – Housing Revenue Account, on 24 February 2022 (reviewed and updated by Aisha Bapu, Senior Accountant – Housing Revenue Account, on 21 April 2022)

6. Legal colleague comments

- 6.1 The main source of income for the HRA is rent. It pays for, inter-alia, the maintenance and upkeep of its homes. The Rent Policy provides transparency as to how the Council will calculate and charge rent for its properties as contained within that Policy. The Policy reflects the Council's service delivery of the HRA business plan and encompasses the legislative framework, which includes, but is not limited to, the following:
- Housing Act 1985, Section 24
 - Housing and Regenerate Act 2008, Section 197
 - Rent Standard Guidance April 2015
 - Welfare Reform and Work Act 2016
 - Directions on the Rent Standard – 2019
 - The Rent Standard 2020
 - Policy Statement on rents for social housing – February 2019
 - Local Government and Housing Act 1989
- 6.2 I am satisfied that the proposed Rent Policy conforms with legislation and also reflects the Council's commitment to its HRA business plan, strategy for tenancies

and revenue budget. This Policy also accords with the Council's Equality and Diversity Policy and does not impact disproportionality on different equality groups.

Comments provided by Jacqueline Heffron, Senior Solicitor – Litigation and Dispute Resolution, on 5 April 2022

7. Equality Impact Assessment (EIA)

7.1 An EIA is not required because the policy confirms existing practices and does not represent a change in policy that might have any equality impacts.

8. Data Protection Impact Assessment (DPIA)

8.1 A DPIA is not required because the policy will not entail any new data sharing arrangements.

9. Carbon Impact Assessment (CIA)

9.1 A CIA is not required because the rent policy will have no impacts on the Council's carbon neutral targets.

10. List of background papers relied upon in writing this report

10.1 None.

11. Published documents referred to in this report

11.1 Policy statement on rents for social housing – Ministry of Housing, Communities and Local Government, 2019

11.2 Rent Standard – Regulator of Social Housing, 2020

Appendix 1: Draft Rent Policy for HRA properties

Nottingham City Council

Rent Policy for homes held within the Housing Revenue Account 2021-25

1 Introduction

1.1 Nottingham City Council is a stock-holding local housing authority which owns approximately 25,000 residential properties. The tenants to whom these properties are let are charged a weekly rent which pays for the management, maintenance and future investment needs of their homes. The rents that are collected are paid into the ring-fenced Housing Revenue Account (HRA) which is administered by the Council in order to deliver the needs of the stock. The stock owned within the HRA is classed as social housing, and as such, is subject to regulation by the Regulator of Social Housing.

1.2 The way in which rents for social housing are set is prescribed at a national level; however there are different types of rent within social housing, and certain flexibilities which social landlords are able to apply in respect of their stock.

2 Summary

2.1 This document sets out how Nottingham City Council (the Council) sets rents on residential properties held within its Housing Revenue Account. The rent policy complies with the requirements of the law as set out in legislative and regulatory framework and will remain in force until 31 March 2025, unless any changes are required due to legislative or regulatory requirements implemented by government, or the Council's approach.

2.2 On occasions, when specifically approved by the Council, properties may be let for housing purposes to Nottingham City Homes (NCH, the Council's arm's length management organisation responsible for managing council properties), or a charitable organisation, or a community group at a concessionary or zero rent.

2.3 This will be in circumstances where there are operational reasons and where service will be detrimentally affected by not doing so, or where there is a significant demonstrable benefit to the local community or charity. Such arrangements are kept under continual review in order to assess the ongoing need for such uses in relation to the Council's objectives, and the justification for a lower rent.

3 Principles

3.1 As well as legal and regulatory compliance, this policy seeks to embody the following principles:

- Affordability
- Tenancy sustainment
- Fairness
- Transparency
- Reflection of the cost of delivering a high-quality management and maintenance service to the stock

- Consideration of the cost of future investment in the stock so that it meets all legislative and regulatory requirements, as set out in the HRA Business Plan
- Taking account of improvements to properties and the ability to plan future upgrades

4 Exclusions

4.1 Separate policies exist for rents of homes owned by Nottingham City Homes of itself or within any of its subsidiary companies. Additionally, there are a small number of homes held within the General Fund which are also outside of the scope of this policy. These are outlined in Appendix 2.

5 Legislative and Regulatory Context

5.1 The key piece of legislation governing the setting of social rent is the Housing Act 1985 which gives landlords the power to set and increase rents on an annual basis and sets out the steps they should follow in order to do so.

5.2 Government guidance issued in 1999 introduced the concept of a 'formula' rent based on the relative value of the property, the size of the property, and relative local income levels. The aim of this formula-based approach to setting rent levels is to ensure that similar rents are charged for similar social rented properties within a region. This is often referred to as rent convergence.

5.3 Convergence was intended to be achieved by applying annual rent increases within prescribed limits, set by government and usually being the September Consumer Price Index (CPI), plus an additional percentage announced annually by government.

5.4 From 2015 the principle of convergence was effectively ended, leaving a number of landlords with rents not yet at formula levels. A ten year settlement of CPI +1% as a maximum annual increase was put in place. The Welfare Reform and Work Act 2016 however subsequently prescribed a compulsory annual reduction in rents of 1% for four years commencing from 2016-17.

5.5 From April 2020 all registered housing providers are required to comply with the Rent Standard. The Regulator of Social Housing (RoSH) produced guidelines [policy statement on rents for social housing](#) (policy statement) which was issued by the Ministry of Housing, Communities and Local Government (MHCLG).

5.6 The policy statement prescribes that social housing providers should not increase rents from 2020-21 until at least 2024-25 by more than September CPI rate +1% annually.

5.7 In 2011, as part of the then government's Affordable Homes Programme, social landlords were given the power to charge 'affordable rents' for new social homes, both new-build and acquisitions. An affordable rent is a sum equal to up to a maximum 80% of the market rent (including service charges). For some central government grant programmes, it has been a requirement that affordable rents are set on those new schemes.

NOTTINGHAM CITY COUNCIL POLICY

This policy applies to all of the properties held within the HRA. The homes held within the HRA are charged at either a 'social (ie 'formula' rent) or an 'affordable' rent. Each of these is explained below, along with the methodology for setting them.

6 Social rent

6.1 Most of the Council's properties are let at a social rent. All of the properties which were held in the HRA prior to 2011 (the introduction of Affordable Rent) are let on social rents; only certain properties built or acquired subsequently (mostly using Homes England grant funding) are let at Affordable Rents. As noted, since 2001 rents for properties let at 'social rent' in England have been based on a formula set by government known as a 'formula rent'.

6.2 The formula contained within the policy statement is based upon a 1999 England average weekly rent of £54.62, relative local authority property values at 1999 valuations, and relative county income levels in 1999, and the size of the property.

6.3 In Nottinghamshire manual weekly county earnings in 1999 were £298.00 compared to a national England average of £316.40. Individual property valuations at 1999 prices are available for all council owned properties in Nottingham and can be compared to a national average property valuation of £49,750.

The calculation for setting social rents is based upon:

70% of the national average rent

Multiplied by relative county earnings

Multiplied by a bedroom weighting

Plus

30% of the national average rent

Multiplied by relative property value

Uplifted by a cumulative inflationary increase of 66.79% to reflect 2021/22 prices. Examples of social rents in Nottingham using this formula are shown at Appendix 2

6.4 The majority of HRA stock is currently let at or below social formula rent. When convergence ended in 2015 approximately two thirds of properties were still not at formula level. This policy states (7.1) that these will be set to formula when they become vacant and are relet. As at May 2022 This has now been applied to approx. 6,000 of those properties not at formula level, which means that half of the stock is still below formula level.

6.5 All rents levied by the Council will be below rent caps set annually by Government. For 2021/22 these are:

Number of bedrooms	Rent cap (52 weeks)
1 and bedsits	£148.88
2	£157.62
3	£166.38
4	£175.12
5	£183.89
6 or more	£192.64

Thereafter rent caps will increase annually at CPI plus 1.5%.

6.6 Rents are collected on a 50 week basis.

6.7 The Council will review rents annually and will consult and involve tenants in the process. Social rents will be set, and any annual increase applied, as part of the Council's annual budget-setting process. Any change to rents will be approved at a full meeting of the Council in February each year. Changes will apply from the following financial year commencing in April.

6.8 Where there have been major alterations or investment in a property such as an extension or an increase in the number of bedrooms the Council will apply to have the property revalued to reflect improvements made in accordance with the policy statement and if appropriate recalculate rent accordingly for it to be applied at relet.

6.9 Tenants will be notified in writing of rent increases and weekly amount payable at least 28 days in advance of the new payment being due.

7 Formula Rent at re-let

7.1 Any properties which are not currently levied at formula rent will be reset to the formula rent value when they become vacant and are relet. A formal process is in place to ensure that this happens each time a property with a below formula rent becomes void.

8 Rent flexibilities

8.1 Current guidelines maintain discretion for local authorities to set rents above formula rent by up to 5% for general needs properties and 10% for supported accommodation (including Independent Living Schemes). However, any use of rent flexibilities must be in accordance with a clearly defined rationale that has been developed with tenants and takes account of local circumstances and affordability. Rent flexibilities are not to be used as a general policy and must relate to individual properties.

8.2 Defining a clear rationale can be complex but can be used to reflect any significant improvements that need to be carried out in a property, for example,

major energy improvements. When applying flexibility, the Council will ensure that it details the exact criteria for which flexibility is being applied and consult with tenants accordingly. These criteria will be reviewed on an annual basis.

8.3 The Council will use rent flexibility where appropriate when re-letting properties. Rent flexibilities are not permitted on existing tenancies and cannot be applied retrospectively.

8.4 Whilst it is not possible to list every scenario in which the flexibility will be applied, some of the likely improvements which may be appropriate include;

- Major energy efficiency schemes such as external wall insulation
- Photo voltaic panels
- Making homes carbon zero
- Meeting decent homes standards
- Fire safety measures
- Driveways/hardstanding

8.5 In considering whether to apply rent flexibilities, the Council will ensure rents remain affordable and do not exceed local housing allowance rates, are below 80% of market rent levels and rent caps set by government.

8.6 Where a property is being charged a social rent that exceeds the formula rent and the local flexibility criteria is no longer applicable, the Council will either reduce the rent immediately or limit annual rent increases to the relevant CPI value only until formula rent is restored.

9 Affordable rent

9.1 Affordable rent is generally applied to new build properties and acquisitions and requires approval by Homes England as part of development proposals. Initial affordable rents will be set at a maximum of 80% of market rent inclusive of service charges, in accordance with prescribed RICS Red Book valuation methodology.

9.2 Affordable rents will increase annually by a maximum of CPI plus 1% in line with the policy statement on rents for social housing so long as affordable rents will not exceed 80% of market rent.

9.3 When an affordable rent property becomes vacant, the property will be revalued, and the affordable rent levied on relet will be based on a maximum of 80% of the current market rent value at the time of re-letting. In determining the current market rent value of the property, the Council will utilise available market rent data to establish a suitable market rent on which to base the Affordable rent.

9.4 When setting an affordable rent, prevailing rental market conditions will be considered. When local private rents are increasing rapidly and significantly, it may not be appropriate to set a rent at 80% of market rent as this may well push such rents beyond affordability. In such cases, the rent should be set at the level indicated within the business case for the scheme or property purchase in order to achieve pay-back of the build/acquisition costs within the required time. This approach will require approval by a senior manager.

10 Service Charges

10.1 In addition to the rent due on their homes, tenants may also be liable for a number of additional charges in relation to services which they receive above and beyond the general occupation of a property.

10.2 Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling.

10.3 Any charge will only reflect the cost of providing those services and will be reviewed and where appropriate adjusted annually. Tenants will be notified on annual rent statements.

10.4 Service charges are not specifically covered by the RoSH policy statement, however there is an expectation that they must not exceed the cost of services provided and that any annual increase should be no more than CPI plus 1%.

11 Consultation

11.1 Tenants are consulted on the annual rent increase as set out in 6.7.

12 Equality and Diversity

12.1 Nottingham City Council is committed to promoting equality of opportunity in respect of housing services by delivering housing services to the needs of the community regardless of age, disability, gender, marriage and civil partner status, race, religion, belief or sexual orientation. To view the Council's equality and diversity Policy visit <https://www.nottinghamcity.gov.uk/information-for-residents/community/equality-diversity-and-inclusion/>. This policy has been written with regard to the policy.

13 Glossary of terms

Affordability – Ability of tenants to afford rent and associated service charges

Consumer Price Index – measurement of annual price increases

Affordable rent – charges levied for properties acquired or built as part of Affordable Homes programme or funded by Right to Buy receipts.

Consumer Price Index – Office for national statistics (ONS) measurement of annual price comparisons

Formula rent – Government policy to determine level of social rents

Housing Revenue Account (HRA) – A ring fenced account used for all income and expenditure relating to housing properties and land.

Regulator of Social Housing – regulatory body for registered social housing providers

Rent convergence – process of ameliorating difference between council and housing association rents

Rent flexibility – discretion allowed by government for housing providers to charge up to 5 or 10 per cent above formula rents

Rent Standard – a regulatory standard for social housing rent levels

Service charges – charge for additional services above the occupation of a dwelling.

Tenancy sustainment – being able to conduct and maintain a satisfactory tenancy

Appendix 2

Properties outside HRA or owned by Nottingham City Homes and subject to a separate rent policy

- Properties owned by NCH Registered Provider
- Properties owned by NCH Limited
- Properties owned by NCH Enterprise Limited
- Properties held within the General Fund or appropriated to the General Fund

Appendix 3

Examples of social rents in Nottingham as at 2020/21 using the formula contained within policy guidelines.

Calculation	Bedsit	1 bed flat	2 bed flat	2 bed house	3 bed house	4 bed house
70% of national average rent (£54.62)	£38.23	£38.23	£38.23	£38.23	£38.23	£38.23
Multiplied by relative county earnings (£298.00/£316.40)	£36.01	£36.01	£36.01	£36.01	£36.01	£36.01
Bedroom weighting	0.8	0.9	1.0	1.0	1.1	1.2
Multiplied by bedroom weight = (A)	£28.81	£32.41	£36.01	£36.01	£39.61	£43.21
Plus						
30% of national average rent (£54.62)	£16.39	£16.39	£16.39	£16.39	£16.39	£16.39
1999 property value (PV)	£15,680	£20,580	£28,420	£33,761	£36,456	£47,530
Multiplied by relative property value (PV/£49,750) = (B)	£5.16	£6.78	£9.36	£11.12	£12.01	£15.65
2000/01 Total (A + B)	£33.97	£39.19	£45.37	£47.13	£51.62	£58.86
2021/22 Total (uplifted by 66.79%)	£56.66	£65.36	£75.67	£78.61	£86.10	£98.17
Plus 5% flexibility	£59.50	£68.63	£79.46	£82.54	£90.40	£103.08
Plus 10% flexibility	£62.33	£71.90	£83.24	£86.47	£94.70	£107.99

April 2022