



# Lancaster City Council

## Housing and Property: Council Housing

# RENT SETTING POLICY

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## 1. Introduction and Policy Objectives

- 1.1. Rent is the main source of revenue for the Housing Revenue Account (HRA), paying for the management, maintenance, and modernisation of our existing homes.
- 1.2. Lancaster City Council (the Council') is dedicated to providing social and affordable housing options that are within the means of our residents.
- 1.3. In light of this commitment, the purpose of this policy is to establish a framework that ensures rental rates are set at a level that achieves the following objectives:
  - Ensuring affordability for individuals in low-wage employment.
  - Maintaining the financial sustainability of the Council.
  - Generating a satisfactory economic return that enables the continued delivery of high-quality housing and maintenance services.
  - Ensuring a consistent and effective demand for our housing units.
  - Adhering to the regulatory requirements set forth by the Regulator of Social Housing ('the Regulator').
  - Complying with all other relevant legislation applicable to social housing provision.

## 2. Scope

- 2.1. This policy details how Lancaster City Council determines and collecting rental fees and service charges for the housing properties under its ownership and management.
- 2.2. By law Lancaster City Council is obligated to periodically review council rents and ensure that the Housing Revenue Account (HRA) remains financially stable.
- 2.3. The level of rent directly impacts the income generated for the HRA, which in turn influences the HRA Business Plan.
- 2.4. This policy applies to the following groups:
  - Rented Residential Property
    - General Needs Tenants
    - Supported Housing Tenants including Independent Living
- 2.5. This policy does not cover:
  - Service Charges
  - Garages owned by the HRA
  - Special Provision Supported Housing
  - Shared Ownership Properties
  - Pitches rented, where the pitch holders provide their own mobile home.

### 3. Policy Background

- 3.1. Since 2001, rents for properties let at Social Rent (all of the rented homes in the Lancaster City Council Housing Revenue Account (HRA) at the time of publication) have been based on a formula set by the government. This creates a 'formula rent' for each property, which takes account of the relative value of the property, relative local income levels, and the size of the property. A principal aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties.
- 3.2. In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of market rent (inclusive of service charges). The introduction of Affordable Rent was intended to fund the construction of more new homes at a sub-market rent. Landlords can only let new properties at Affordable Rent where certain conditions apply.
- 3.3. Within the terms of the government's Affordable Homes Programmes, existing vacant properties may be converted from Social Rent to Affordable Rent in certain circumstances.
- 3.4. From April 2015, the government made it possible for social landlords to charge a full market rent where a social tenant household has an annual income of at least £60,000. This was designed to allow landlords to make better use of their social housing, rather than requiring them to provide sub-market rent properties to households with relatively high incomes.
- 3.5. Government policy has also limited maximum annual changes in Social Rent and Affordable Rent levels. From April 2016, the Welfare Reform and Work Act 2016 required social landlords to reduce their rents by 1% each year for four years (the 'social rent reduction').
- 3.6. In October 2017, the government announced its intention to set a rent regime for local authority landlords and housing associations that permits annual increases of Social Rents and Affordable Rents of up to CPI + 1% from 1 April 2020, for a period of at least five years ('the new policy'). It did not override landlords' statutory obligation to complete the four-year social rent reduction as required by the Welfare Reform and Work Act 2016.<sup>1</sup>
- 3.7. The new policy recognises the need for a stable financial environment to support the delivery of new homes. It provides a degree of reassurance for financial planning in the short term, but no clarity thereafter. It also does not allow the council to recover the increases forgone in previous years.
- 3.8. To control this new settlement, rather than legislate, the Secretary of State for Housing, Communities and Local Government required the Regulator of Social Housing to prepare a new Rent Standard to apply from 2020 (and since 2023) to all registered providers of social housing, including local authorities.

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<sup>1</sup> The Consumer Price Index (CPI) serves as a gauge for the overall price levels in an economy. Comprising a selection of commonly purchased goods and services, the CPI is instrumental in tracking changes in a country's currency purchasing power and the price levels of a representative basket of goods and services.



- 3.9. From 1st April 2020, registered providers must comply in full, with all the requirements and expectations set out in the Rent Standard. They must also comply with the Rent Policy Statement on Rents for Social Housing 2019 on the setting, increase and decrease of rents and service charges.

## 4. Relevant Legislation

- Housing Act (1985)
- Landlord and Tenant Act (1985)
- Local Government and Housing Act (1989)
- Welfare Reform and Work Act 2016
- Direction of the Rent Standard (2019)
- Rent Standard (2023)
- Policy Statement on Rents for Social Housing (2022) – Hereafter ‘Rent Policy Statement’
- Limit on Annual Rent Increases 2023-24

## 5. Rent Setting

### 5.1. Social Rent

- a. Lancaster City Council charges a Social Housing Rent for all properties. The Council recognises that Affordable Rent is available as explained in Section 5.2 below.
- b. Rents will be determined using the prescribed government formula that considers various factors such as the property's condition, location, value, local earnings, and the number of bedrooms.
- c. The formula for calculating rents is as follows:
  - I. 30% of the rent is based on the relative value of the property.
  - II. 70% of the rent is based on the relative local earnings.
  - III. Additionally, smaller properties will have lower rents due to a bedroom factor.
- d. Existing tenants' rents cannot be increased by more than the guidelines (currently CPI + 1%). On occasion cabinet members have decided to increase the rents by less than the maximum permitted, or not at all. Therefore, the council has some properties with rents lower than the formula rent. When one of these properties becomes vacant, the proposed rent will be recalculated based on the formula rent.

- e. There are maximum limits for rents payable set by the government. From April 2024 these limits are:

Number of Bedrooms	Rent Cap (Weekly)
<b>1 (incl. Bedsits)</b>	£188.04
<b>2</b>	£199.09
<b>3</b>	£210.15
<b>4</b>	£221.19
<b>5</b>	£232.26
<b>6 or more</b>	£243.31

## 5.2. Affordable Rent

- a. Despite currently having zero stock of this kind, Lancaster City Council has the option to set rents at levels higher than social rents, known as Affordable Rent, in order to generate additional funds for investment in new affordable housing.
- b. If the Council receives grants from Homes England to develop and provide new Council homes for rent, it is typically required to use Affordable Rents.
- c. The Council will ensure that its rent setting for Affordable Rent properties aligns with the requirements set by Homes England.
- d. Whenever a new Affordable Rent tenancy is issued for a property, a new valuation will be conducted. The rent for the property will be set at 80% of the local market private rents, as determined by this valuation.
- e. This rent, inclusive of service charges, will be the maximum Affordable Rent that can be charged. This new "rebased" rent will take precedence over any previously set rent levels.
- f. If the same customer renews their tenancy after a fixed term, a new valuation will be required.
- g. The Government has established a process that allows properties let under affordable rent terms by local authorities to be exempted from the Rent Rebate Subsidy Limitation scheme.
- h. However, certain criteria outlined in the guidance, including a signed letter from the Section 151 Officer, must be met.

## 5.3. Shared Ownership

- a. Shared ownership properties are exempt from the Regulator's Rent Setting Standard.
- b. The rent charged for shared ownership properties is specified in their lease and will reflect any changes to the equity shares held by the resident.
- c. The lease also sets how the rent charged will be reviewed.

## 6. Rent Periods

- 6.1. The average weekly rent will be calculated based on the council's annual rent cycle of 48 weeks in a 52-week financial year. Or 49 weeks in a 53-week financial year (4 rent free weeks a year).

## 7. Annual Rent Increases

- 7.1. The annual review of charges is an integral part of the budget setting process across the Council and subject to cabinet and full council approval.
- 7.2. Once agreed the new rent and charges are implemented on the first Monday of April.
- 7.3. The Council will give tenants 4 weeks written notice of any change in the level of rent which normally will be the first Monday in April and rent increases will be applied in line with Section 13(2) of the Housing Act 1988 where appropriate.
- 7.4. Formula rents will increase by CPI + 1% each year from 2020/21 onwards for a period of five years. CPI will be taken as of September of the previous year.

## 8. Monitoring and Evaluation

- 8.1. The progress of this policy shall be monitored regularly through user feedback to identify areas for improvement.

## 9. Review and Update

- 9.1. This policy will be reviewed annually or sooner to address any legislative or regulatory changes. Or in response to any operational issues.