

Octavia Housing Group

Rent Policy

April 2019 – March 2020

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Introduction to Octavia Housing's Rent Policy

1. This document explains how Octavia Housing and Ducane Housing Association (together Octavia), set rents for residential properties that are let to individuals. The overall aim of the rent policy is to set rents that are affordable for our social housing and intermediate rent tenants and shared owners.(ie rents that are substantially lower than market), although market rents are charged on a few properties held as investments.
2. Octavia is constrained in various ways by regulatory requirements, planning approvals and the terms of borrowing agreements about the level of rents which can be charged. Different approaches to rent setting can apply dependent upon when someone originally became a tenant, the form of tenancy that applies, and in some cases the terms of the planning or the grant that originally funded the purchase of the property by Octavia.
3. The rent policy is reviewed annually and updated as appropriate to reflect changes in policy adopted by the Board of Octavia Housing, as well as changes in legal and regulatory requirements.
4. The rent policy for social rented properties was substantially revised with effect from April 2016 in line with the requirements of the Welfare Reform and Work Act which was passed into law in March that year. This required rents for social rented tenants to be decreased by 1% for the four years from 1 April 2016 rather than increasing by inflation (as measured by the Consumer Prices Index - CPI) + 1.0% as previously – this rent policy reflects the final year of reductions required by law. Service charges and rents for shared owners and market rent tenants are not affected by these reductions.
5. Octavia Housing's rent policy is defined by the type of tenure held, as follows;
 - a. Secure Social Housing Tenancies (generally those with tenancies that commenced before January 1989);
 - b. Assured Social Housing Tenancies (generally applies to Octavia properties acquired after January 1989 but before 30 November 2011);
 - c. Affordable Social Housing Tenancies (generally those who became Octavia tenants under the Affordable rent system after 30 November 2011);
 - d. Assured Shorthold and similar Tenancies, generally for
 - (i) those housed under Intermediate Housing arrangements (including by Ducane HA);
 - (ii) students housed by Ducane HA
 - (iii) residents' housed under the Rent To Homebuy scheme;
 - (iv) market rent tenants;
 - e. Rent for tenants in Supported housing including schemes managed on behalf of the association by managing agents.
 - f. Rents for those who acquired a proportion of the ownership of their home under Shared Ownership/low cost home ownership arrangements
 - g. Ground rents for leaseholders where Octavia owns the freehold.

- 8 While the following pages in this document describe the detailed policy for each type of tenure, rents for new tenants are generally set with reference to two Rent Setting Systems set out in UK law, the Formula Rent system (previously known as the Target Rent system) and The Affordable Rent system. These systems are described in Appendix 1 and Appendix 2 respectively.
- 9 The Formula rents calculated for Assured tenancies include a variable representing an estimate of the 1999 value of the property being rented. The systems for estimating these values were standardised further during the year to March 2018.
- 10 Although we have set out the general position of the circumstances in which tenancy and lease agreements were entered into as an aid to understanding this policy, Octavia will not make any changes to existing tenancy or lease agreements with individual tenant/leaseholders on the basis of these descriptions.

Service Charges

For many residents, Octavia levies service charges in addition to the rent being charged. These service charges are principally to cover the cost of providing services that are delivered to some residents (but not all), depending on the terms of their tenancy or lease agreement. Service charges are levied under two different systems currently.

a) Fixed Service Charges

Under the fixed service charge system, an estimate is made each year of the cost of providing the services being delivered to a housing block and this cost is then split between the individual properties in the block. For blocks constructed before 2006 the estimated cost is divided equally between the properties in the block. For blocks constructed after 2006, the estimated costs are apportioned on the basis of the maximum occupancy of the various flats advised by the local authority. Once the charge has been set, any variation between the actual cost and the estimate is absorbed by Octavia in that Financial Year.

The Fixed Service Charge system is used for setting service charges for social rented tenants, where applicable.

Until March 2017, Octavia restricted the increase in charges for existing services to General Needs social rented tenants each year to a maximum of £3.00 per week – this restriction no longer applies

b) Variable Service Charges

Under the Variable Service Charge system, an estimate is made each winter of the expected cost of delivering services over the next financial year from 1 April to the following 31 March. This estimate is then advised to residents by the end of February each year and charged from the following April to March. After the end of the financial year, a comparison is made between the actual cost of delivering services and the estimated cost that had been charged – where the actual cost is higher than the estimate then an additional charge is levied but where the actual cost is less than the estimate a refund is made. The outcome of this comparison is reviewed by independent accountants and generally notified to residents by 30 September each year.

The Variable Service Charge system is used for setting service charges for Shared Owners and leaseholders using the apportionment method set out in the terms of the lease. There is no restriction on the level of increase charged each year but variable service charge payers are able to challenge various aspects of the process. If you would like more details please request details from your principal contact at Octavia.

A separate process exists for charging Shared Owners and leaseholders for the cost of any major works using the methodology required by Section 20 of the Landlord and Tenant Act 1985 (generally where the expected charge to a leaseholder for works exceeds £250 or £100 per annum for a contract lasting more than one year). Full details are supplied at the time of any Section 20 consultation.

Section A – Rents for Properties let on “Secure” Tenancies

1. Applies to :

Tenants who are renting general needs social housing properties (but also including some Older People’s Housing) from Octavia under “Secure” tenancies, which were generally issued before 1989.

2. Rents on New Lettings :

There are no new lettings of properties on secure tenancies

3. Rents on Transfers :

Transfers of “Secure” tenancies will only arise when an existing “Secure” tenant moves to another Octavia property. In cases where the move is required by Octavia for eg redevelopment, the new rent to be charged is the existing secure rent, adjusted for changes in the number of bedrooms. Where tenants request a transfer or it is for housing management reasons, a new rent will be charged at the Formula Rent for the property (see Appendix 1) which will not be higher than the relevant Government Rent Cap for the property or the rent assessed by the local authority Rent Officer service. Tenants moving to a smaller property will be charged a rent no more than 95% of the previous rent.

4. Annual Rent changes :

With effect from 1 April 2019, the rent charged to existing “Secure” tenants will generally be reduced by 1.0% (one per cent) but there is an exception in one set of circumstances. In the case where the Registered Rent for a secure tenancy is below the Formula rent for that property, the rent will be increased with effect from 1 April 2019 by 3.4% (CPI inflation plus 1%), but the new rent will not exceed the Registered Rent. The planned rent reduction does not apply to any service charge being collected which will vary in line with the costs of providing the relevant services.

5. Rate of Inflation used to determine any increase:

Under the Welfare Reform and Work Act 2016, social housing rents are due to fall each year for four years from April 2016- accordingly this concept is not currently relevant in most cases.

6. Service charges.

An estimate of the cost of providing services will be included as part of the rent where the tenancy agreement provides for this. Such service charges are made using the fixed service charge method.

Section B – Rents for Properties let on Assured Tenancies

1. Applies to :

Tenants who are renting social housing properties (but also including some Older People's Housing) from Octavia under Assured Tenancies, generally those issued after 1989 (except for those identified as Affordable Rent – see Section C).

2. Rents on New Lettings :

Where properties are let on Assured tenancies to people who are not existing Octavia tenants, the starting rent for their new home will be the Formula Rent for their property (see Appendix 1). There are two exceptions to this; (a) if the Formula Rent is higher than the Government Rent Cap for the property (see Appendix 1), in which case the Government Rent Cap will be charged, and (b) if the property is let on the Affordable Rent basis, in which case the rent will be set on the basis explained in Section C.

3. Rents on Transfers :

Existing Octavia general needs assured tenants requesting a transfer (except those identified as Affordable Rent – see Section C) will enter into a new Assured Tenancy for their new home with a starting rent of the Formula Rent for their new property (see Appendix 1), except if this is higher than either (a) the Government Rent Cap for the property (see Appendix 1) ,when the Cap will apply, or (b) the Affordable Rent (see section C), when the Affordable Rent will apply. Existing Octavia tenants who are required to move by Octavia eg due to a redevelopment will be charged their existing assured rent adjusted for any change in the number of bedrooms. Tenants moving to a smaller property will be charged a rent no more than 95% of the previous rent.

4. Annual rent changes :

With effect from 1 April 2019, the rent charged to existing Assured tenants will reduce by 1.0% (one per cent). This reduction does not apply to any service charge being collected which will vary in line with the costs of providing the relevant services.

5. Rate of Inflation used to determine any rent increase:

Under the Welfare Reform and Work Act 2016, Assured rents are due to fall each year for four years from April 2016- accordingly this concept is not currently relevant.

6. Service Charges :

An estimate of the cost of providing services will be added to the rent where the tenancy agreement provides for this. Such service charges are made using the fixed service charge method.

Section C – Rents for Properties let under the Affordable Rents System

1. Applies to :

Tenants who are renting social housing properties from Octavia on assured tenancies let under the Affordable Rents system.

2. Rents on New Lettings

Where properties are let under the Affordable Rent System the London Affordable Rent rates will be used, unless the s106 agreement specifically states a different methodology.

3. Rents on Transfers :

London Affordable Rents will also apply to existing Octavia tenants who transfer into properties developed with grant from the HCA or GLA awarded between April 2011 and 2017 or any other Octavia property that has been designated for Affordable Rent (broadly those covered by an agreement with the HCA and completed after June 2012.)

4. Annual rent changes :

With effect from 1 April 2019, Affordable rents for existing tenants at that date will be reduced by 1.0% (one per cent) of the whole rent charge. Under London Affordable Rent this does not include service charge.

5. Rate of Inflation used to determine any increase:

Under the Welfare Reform and Work Act 2016, Affordable rents are due to fall each year for four years from April 2016- accordingly this concept is not currently relevant.

6. Service Charges

For Affordable Rent that is not under the London Affordable rent regime, service charges are included in the rent charged and no additional charge is made for communal services being provided such as landlords' lighting. However, in the tenancy agreement the service charges will be separately identified from the underlying rental for the property. Additional charges may be levied for additional services provided for the use of a particular tenant, such as furniture.

For London Affordable Rent service charges are not included in the rent charged. An estimate of the cost of providing services will be added to the rent where the tenancy agreement provides for this. Such service charges are made using the fixed service charge method.

Section D Rents for Assured Shorthold and similar Tenancies

1 Applies to:

Octavia generally issues Assured Shorthold Tenancies for four categories of rentals;

- Intermediate rent housing (including key worker accommodation)
- The Rent to Homebuy scheme
- Market rent
- Starter tenancies and for the Rough Sleepers Initiative – rent increases for these types of lettings are covered in sections B and C and not in this section.

Ducane uses Fixed Term Non-Secure tenancies for letting to students.

2 Rents on New Lettings:

- Intermediate Rent/Key Worker Housing** - for properties acquired before December 2011, initial rents to be charged to new tenants will be set on the basis of agreements with the local authority, but no higher than 80% of the market rent for the property. For properties acquired after December 2011, initial rents to be charged to new tenants will be set at the levels advised by the Mayor of London for London Living Rents. Note – in some high value areas the Borough may define a different methodology in the s106 agreement.
- Student Housing** - the rents to be charged to new tenants will be set at levels which represent not more than 80% of the market rent for the property.
- Rent to Homebuy Scheme** - initial rents are set at 80% of open market rent for the property, based on advice from local letting agents.
- Market Rent** - initial rents are set at the open market rent for the property based on advice from local letting agents.

3 Rents on Transfers:

It is not anticipated that any existing Octavia social housing tenants would transfer into such properties but if this were the case the rent to be charged would be the same as for new lettings.

4 Annual Rent Increases

- Intermediate Rent/Key Worker Housing** – the rent for existing tenants will be increased by inflation. However, the rent to be charged will not exceed 80% of market rent.
- Student Housing** - the rent for existing tenants will be increased by inflation plus 1.0% (one per cent). However, the rent to be charged will not exceed 80% of market rent.
- Rent To Homebuy Scheme** - each year the rent will be increased by inflation plus 1.0% (one per cent). However, the rent to be charged will not exceed 80% of market rent.
- Market Rent** - each year the market rent for the property will be assessed by a local letting agent and the rent set will be based on this advice.

For new and transfer tenants, rent increases are applied on the first Monday in April.

5 Rate of Inflation used to determine any increase:

The measure of inflation used to calculate rent increases is the increase in the Consumer Prices Index (CPI) either in the September of the preceding financial year or two months prior to the increase, as specified in the tenancy agreement. For increases in the year to 31 March 2020, the inflation rate to be used is 2.4% ie the change in the CPI in September 2018.

6 **Service Charges**

Service charges are generally included in the rents charged set out above, and no additional charge is made for communal services being provided such as landlords' lighting. However, in the tenancy agreement the service charges will be separately identified from the underlying rental for the property. Additional charges may be levied for additional services provided for the use of a particular tenant.

Section E Rents for Tenants in Supported Housing (including Sheltered, Extra Care and Special Projects)

1 **Applies to:**

Tenants who are renting social housing properties from Octavia which are specially designed for people who need additional support to maintain their tenancy. Generally new lettings of Octavia's supported housing use Assured Shorthold Tenancies, but some existing tenants may have Secure or Assured Tenancies.

2 **Rent on New Lettings:**

Starting rents for new lets of Supported Housing are at the Formula Rent for the property (including an optional 10% permitted under the current regulatory regime - see Appendix 1), which will not be more than the Government Rent Cap (see Appendix 2).

3 **Rents on Transfers:**

Starting rents for existing Octavia tenants transferring into Supported Housing are at the Formula Rent for the property (including the permitted optional 10% - see Appendix 1), which will not be more than the Government Rent Cap (see Appendix 2).

4 **Annual Rent changes:**

With effect from 1 April 2019, the rent charged in respect of an existing Supported Housing tenancy will be reduced by 1.0%. Any service charge being collected will vary in line with the costs of providing the relevant services.

5 **Rate of Inflation used to determine increase:**

Under the Welfare Reform and Work Act 2016, rents for supported housing tenancies are due to fall each year for three years from April 2017- accordingly this concept is not currently relevant.

6 **Service Charges**

An estimate of the cost of providing housing related services will be charged. Such service charges are made using the fixed service charge method. An additional charge for support services may also be made in certain circumstances.

Section F Rents for Shared Ownership Properties

1 Applies to:

People who have purchased a share in a property from Octavia and are renting the remainder (i.e. the ownership level has not increased to 100%).

2 Rents on New Lettings:

The initial rent being charged is set out in the Shared Ownership lease entered into at the time of the purchase. This is normally set as a small percentage of the value of Octavia's retained share of the property at the date of sale calculated on an Open Market basis with Vacant Possession.

3 Rents on Transfers:

This situation does not occur.

4 Annual Rent Increases:

Details of the rent increase are set out in the Shared Ownership lease but typically, each year the rent charged will increase each April by inflation + 0.5% (one half of one per cent) subject to a minimum increase of 0.5% (one half of one per cent).

In addition to the annual rent increases there will also be changes to the level of estimated service charge levied (see below). The terms of new shared ownership leases signed in the three months prior to the annual rent increase date in April typically specify that no rent increase is due at that first increase date.

5 Rate of Inflation used to determine increase:

Inflation is typically specified in shared ownership leases as the increase in the Retail Prices Index (RPI) in the September of the preceding financial year. For increases in April 2018, the inflation rate used is 3.3% ie the increase in the RPI in September 2018, unless the lease specifies a different calculation.

6 Service Charges:

Octavia will charge service charges calculated using the Variable Service Charge method, as specified in the Shared Ownership lease. Typically, this will include charges for insurance and sinking funds for the future cyclical decoration works and generally also for the replacement of major components in your building, as well as for services provided.

Section G Ground Rents for Leaseholders

1 Applies to:

People who own their home with Octavia as freeholder. This could arise from

- a) Shared Owners staircasing their ownership to 100%.
- b) Purchasing a leasehold flat from Octavia.
- c) Purchasing a leasehold flat from someone in (a) or (b) above.

2 Rents on acquisition:

The initial ground rent payable and details related to this are set out in the lease.

3 Rents on transfers:

This situation does not occur.

4 Rent increases:

The dates and terms of increase are set out in the lease.

5 Rate of inflation used to determine increase:

Usually there is no link between rent increases and inflation.

6 Service Charges:

Octavia will charge service charges calculated using the Variable Service Charge method, as specified in the lease. Typically this will include charges for insurance and sinking funds for the future cyclical decoration works and generally also for the replacement of major components as well as for services provided.

The Formula Rent System

- 1 In December 2000 the Government proposed a revision to the methods of rent setting across the social housing sector. Its intention was to harmonise rents paid by tenants whether they were in Local Authority or housing association accommodation and to establish an equitable system of rent setting.
- 2 This system put in place in April 2002 by the government and the then social housing regulator, The Housing Corporation (HC) was based on a “Target Rent” being calculated for each property. The Target Rent was calculated using a formula based on the value of the property in 1999, average local earnings and national average rents and adjusted for the number of bedrooms. Associations were expected to converge their existing rents towards Target Rents over the 13 years to 2015. Social landlords were able to choose to charge between 5% above and below Target Rents (10% for Supported Housing). Individual rent increases until March 2015 were required to be no more than RPI +0.5%, plus, where rents were below Target Rent, a further increase of up to £2.00 per week. In May 2014, the government issued a new Rent Direction covering the ten years from April 2015 limiting the annual increase in social rents over that period to CPI + 1.0% - this change in calculation was also applied to Target rents. In March 2016 the provisions of the Welfare Reform and Work Act required social housing rents to be cut by 1% each year for four years starting in April 2016 – however these reductions do not apply to the Target Rent for a property, which has been renamed in the legislation as the Formula Rent and which continues to increase as before (except that the 5% tolerance for general needs rented properties is no longer available).
- 3 Under the terms of the Welfare Reform and Work Act 2016, each property is set a Formula Rent according to the following formula:

70% of the HA average rent x relative area earnings x bedroom weighting **plus** 30% of the HA average rent x relative property value.

All of the elements of the formula are published by the Office of National Statistics, with the only variable element being the estimated Existing Use Value of the property in January 1999.

- 4 Early in the consultation process it was noted that because of high values in London, most of the Target Rents there would be considerably higher than current rents. Because of concerns over affordability, flexibility was granted so that Associations were not required to implement rent restructuring in full. In December 2001 further guidance was published which introduced rent caps, as follows

	Initial rent caps in 2002/03	Rent caps 2019/20
Studios / 1 bed flats	£85.00 per week	£141.43 per week
2 bedrooms	£90.00 per week	£149.74 per week
3 bedrooms	£95.00 per week	£158.06 per week
4 bedrooms	£100.00 per week	£166.37 per week
5 bedrooms (from 06/07)	N/A	£174.69 per week
6 bedrooms or more	N/A	£183.00 per week

- 5 The Formula Rent is applied for new social rent lettings except where this exceeds the capped level, when the cap level is used. From April 2015, rent caps have been frozen at their 2015/16 levels.

Affordable Rent System

- 1 In 2010 a coalition government was elected with a mandate to reduce the level of public borrowing. One of the actions taken was to significantly reduce the levels of Social Housing Grant available for the development of new social housing. In order to enable Registered Providers (RP's) to finance the provision of more new social housing, they were enabled to charge rents at up to 80% of market levels on newly developed properties for rent and a proportion of relets. These new rents are called "Affordable Rents" and do not allow for a service charge to be collected in addition to the rent.
- 2 Following concern over the affordability of the levels of rent that could result from the implementation of this policy in the main areas of Octavia's operations, agreement was reached with the HCA to charge levels of rent to new tenants that would represent approximately 35% of average earnings before tax in London and be comparable with between 50% and 80% of lower quartile market rents in Octavia's areas of operation. These affordable rents have been charged from December 2011 to approximately 80 new tenants moving into existing Octavia owned properties and to substantially all tenants moving into properties newly developed by Octavia from June 2012. Existing Octavia tenants transferring to existing properties owned by Octavia at 30 November 2011 are generally charged rents based on the Formula Rent system (see Appendix 1).
- 3 Following consultation with the Octavia Housing Tenants Steering Group, it was agreed not to charge Affordable rents on bedsit or studio properties.
- 4 At the same time as Affordable rents were introduced, a new rent policy for Intermediate Rented Housing levels was introduced for tenants from higher income groups, based around rents of 50% to 80% of median market levels.
- 5 In early 2014, the Greater London Authority advised that they would be seeking a further variant on Affordable Rent to be charged on properties developed with grant funding from their 2015/2018 bid round – Octavia has been awarded grant under this funding round based on charging rents using both the Affordable Rent and Intermediate Rent policies existing at that time.
- 6 Ducane Housing Association, which joined the Octavia group in March 2016, rents properties under both Affordable Rent arrangements and Intermediate Rent arrangements, and additionally provides Student Housing – details of the rent policies applied for these properties is set out in Section D above dealing with rents for Assured Shorthold tenants.
- 7 In 2018, the group's rent policy for new lettings of Intermediate rent properties was changed to bring it into line with the Mayor of London's scheme for London Living Rents , subject to a maximum of 40% of London average household income, in recognition of the high levels set for London Living Rent in some central areas.

Example rent increase calculations (excluding service charges)**(1) Rent decrease in April 2019 for an Assured tenant with rent well below Target**

Example for an assured tenant in a one bedroom flat with a rent (excluding service charges) in 2018/19 of £100.00 per week and a Target Rent for 2018/19 of £110.00, the rent decrease in April 2019 would be £1.00 per week, calculated as 1.0% of the rent.

(2) Rent decrease in April 2019 for an Assured tenant with rent at Target

Example for an assured tenant in a two bedroom flat with a rent in 2018/19 of £125.00 per week (excluding service charges) and a Target Rent for 2018/19 of £125.00, the rent decrease in April 2019 would be £1.25 per week calculated as 1.0% of the rent charge (excluding service charges)

(3) Rent decrease in April 2019 for an Assured Tenant with rent at Rent Cap level

Example for an assured tenant in a three bed house with a rent (excluding service charges) set in 2018/19 at the Government Rent Cap of £156.48 per week, the rent decrease in April 2019 would be £1.56 per week (calculated as 1.0% of the rent) to £154.92 per week.

(4) Rent increase in April 2019 for a Secure Tenant with rent near Registered Rent

Example for a secure tenant in a two bed house with a rent set in 2018/19 at £100.00 per week and no service charges, with a Target Rent for 2018/19 of £150.00 and a Registered Rent of £104.00 per week, the rent increase for 2019/20 would be £3.40 calculated as CPI inflation of 2.4% plus 1.0% = 3.4% of the rent.

As noted above, all the above examples ignore the impact of any increase in service charges.