

Housing Revenue Account (HRA) Rent Setting Policy

Document Control

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1. Introduction

Rental income is the main source of revenue for the Councils Housing Revenue Account (HRA) and it funds the management, maintenance and improvement of all council-owned residential properties. In addition to this, revenue within the HRA also helps to fund the development of new council homes, which is aligned to the council's commitment to increase affordable housing in the Borough to address housing need.

2. Scope and Purpose

This policy outlines how Gravesham Borough Council will calculate, and charge rent for the housing stock that it owns and has the responsibility to manage and maintain. The Council is required by law to carry out a review of council rents from time to time and to ensure that the Housing Revenue Account (HRA) does not fall into a deficit position. The rent charged determines the income to the HRA, which in turn determines the 30-year HRA Business Plan that the service is required to maintain.

The purpose of this policy is to:

- Ensure that rents are set in accordance with relevant statutory, regulatory, audit and contractual obligations.
- Ensure that rents are set at a level which ensures that the Council meets its obligations to residents, maintains stock at a good standard and supports plans for investment in new and existing homes.
- Provide a clear framework for the setting and review of rent levels for each property, including existing tenancies, new tenancies and when properties are let after being void.
- Ensure that all tenants are made aware of the weekly rent payment due to the Council, both at the beginning of their tenancy and when the charge is reviewed each year.
- Provide financial certainty for the HRA.

3. Background

Since 2001, rents for properties let at 'social rent' (which constitute a majority of rented social housing properties) have been set based on a formula set by the 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. An aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties across public and private registered providers.

In 2011, the government introduced affordable rent, which permits rents (inclusive of service charges) to be set at a level up to 80% of market rent. The introduction of properties that charge an affordable rent has made it possible to build more homes for every pound of central government investment, allowing more people in housing need to have access to a good quality home at a sub-market rent.

The Welfare Reform and Work Act 2016 introduced a requirement for social landlords to reduce their rents by 1% each year, over a four-year period. Whilst this policy estimated significant savings in reduced Housing Benefit claims nationally, it had a significant and negative impact on the council's HRA as it reduced the amount of revenue the HRA had predicted to receive, which in turn, impacted investment decisions.

From 1 April 2020 the Government permitted, for a least five years, annual rent increases on both social rent and affordable rent properties of up to CPI (Consumer Price Index) plus 1 percentage point from 2020, except for 2022/23 where Government imposed a rent cap of 7% due to high inflation.

In October 2024, Government opened a consultation on future social rent policy with the aim of improving the supply and quality of rented social homes, whilst ensuring affordability. The outcome of this consultation will be implemented from April 2026.

4. Legislation and Guidance

- The Housing Act 1985 (Section 24)
- The Landlord and Tenant Act 1985
- Local Government and Housing Act 1989
- Housing and Regeneration Act 2008 (Section 197(a))
- The Health and Social Care Act 2012
- Guidance on rents for Social Housing – Department for Communities and Local Government, May 2014
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016
- Welfare Reform Act 2016
- Direction on the Rent Standard 2019
- Policy Statement on Rents for Social Housing, February 2019
- Rent Standard Guidance 2020, Department Levelling-up, Housing and Communities
- Rent Standard 2023, Regulator of Social Housing

The application of this policy is overseen by the Regulator of Social Housing. The detail of this is contained within their published Rent Standard. The Ministry of Housing, Communities and Local Government produced a policy statement on rents for social housing in February 2019 and this policy sets out how the Council will comply with this document's content, as well as the Regulator of Social Housing's Rent Standard. An annual check will be made on the rents and charges levied for properties as part of the annual rent review process to ensure that the correct amounts are being charged for properties (i.e. rents and service charges), and to ensure that the correct written notification is given on the charges raised.

5. Formula Rent (Social Rent)

The Council will charge formula rent for all HRA properties except for:

- New build HRA properties.
- Specialised supported housing.
- Temporary housing.

Rents will be set based on a formula that has consideration of the condition and location of a property in line with Government Policy:

- The condition and location of a property – reflected in its value.
- Local earnings.
- Property size (specifically, the number of bedrooms in a property).

The basis for the calculation of formula rents is:

- 30% of a property's rent should be based on relative property values.
- 70% of a property's rent should be based on relative local earnings.
- A bedroom factor should be applied so that, other things in the formula being equal, smaller properties have lower rents.

The Council has some properties with a rent charge that are below the formula rent as they have not been vacant since the introduction of formula rent. When one of these properties becomes empty the proposed rent for the incoming tenant will be set at the formula rent.

The Council will set rents at 100% of the Formula rent, which will increase each year by CPI +1%. CPI will be taken as of September of the previous year.

There may be circumstances that arise that require the Council to consider using Rent Flexibility, which would result in rent being set at 105% of Formula Rent for general needs properties and 110% for supported housing.

The Council has limited discretion over rent levels for HRA properties, but there is a degree of flexibility that can be applied, taking into account any identified shortfall in the HRA that may negatively impact the management and/or maintenance of properties. This is known as Rent Flexibility and allows the council to charge an additional 5% above Formula Rent for general needs properties, and 10% for supported housing.

In considering introducing Rent Flexibility, tenants will be consulted, following which, Member approval will be sought.

The Council cannot convert a property charged at Formula Rent to any of the following rent types:

- Affordable Rent (except where there is an agreement with Homes England or the Secretary of State, under the terms set out in the definition of affordable rent in paragraph 3.3 of the Policy Statement on Rents for Social Housing).
- Market Rent (unless a household has an income of at least £60,000 per year or more)
- Intermediate Rent

6. Affordable Rent

Affordable Rent properties are accommodation which Homes England or the Secretary of State have agreed can be let an Affordable Rent (which includes service charges). They are exempt from Formula Rent requirements as set out in this policy.

Affordable Rent is higher than Formula Rent and any new council properties built will generally be set at Affordable Rent as agreed with Homes England. Buy back homes will be made available at an affordable rent line with the councils rent policy to ensure continued accessibility for residents.

Affordable Rent must not exceed 80% of gross market rent and must include all applicable service charges. Gross market rent is the amount of rent a property in the private sector would be reasonable expected to achieve. Factors such as property size, location, type and service provision will be considered when gross market rent is determined.

Affordable Rents charges adopted by the Council will not exceed either 80% of gross market rent or the Local Housing Allowance (LHA) for the area in which the property is located, whichever is the lower.

The Council will not increase Affordable Rent by more the CPI +1%, or any cap introduce by Government as part of national rent setting policy. CPI will be taken as of September of the previous year.

When a tenancy of a property that is set as Affordable Rent ends, before it is relet, the council will reset the rent based on an updated valuation to ensure the new rent does not exceed 80% of gross market rent or the relevant LHA rent. The Affordable Rent will be charged at the lower of these two. This does not include tenants that move from an introductory to secure tenancy.

A property charged at Affordable Rent cannot be converted to:

- Market Rent (unless a household has an income of at least £60,000 per year or more)
- Intermediate Rent

7. Service Charges

In addition to social rent, tenants may also need to pay service charges.

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

Service charges may increase or decrease separately from rents each year based on the actual services being provided and the costs incurred and will be based on actual expenditure for the preceding financial year where reasonable possible. The Council will seek to recover 100% of the service charge costs being incurred to ensure that tenants that do not benefit from the additional services being provided, do not subsidise the service.

Service Charges are not covered by the same Government guidelines as rent setting; however, the guidelines are that service charges should be set on a reasonable and transparent basis and should reflect the service provided. Increases should be limited to CPI +1% as rents are, unless new or extended services are introduced.

Where new or extended services are introduced, and an additional charge may need to be made, the Council aims to consult with tenants.

For Affordable Rent tenants, the service charge is included alongside the rent.

8. Garages and parking spaces

Garages and parking spaces, whilst within the HRA, are not subject to the same controls. The Council will set the rental charge of garages and parking annually and this will vary per site based on an assessment of demand for the location.

Council tenants will be charged the cost of a garage or parking space minus VAT. The cost for all other garage and parking space licence holders who are not tenants of the Council will include VAT, in accordance with the relevant VAT legislation.

The Council may charge different rent levels in different areas due to the level of demand or condition of the garages and parking spaces.

9. Rent Collection

Rents will be calculated over 52 weeks and collected over 52 weeks. Where there are 53 weeks in the financial year, the rent will then be charged for 53 weeks and collected over 53 weeks.

The rents will be increased or decreased on the first Monday of April, including in the April following the granting of a new tenancy. The rent payable is due on the Monday of each week and should be paid within the week that the rent is due, other than where the payment method is by Direct Debit and the payment date has been agreed by the Council.

The service charges that form part of the tenancy or occupation agreement will be highlighted in the agreement. There is no option to opt out of any specified charge.

To assist our customers in paying their rent, all customers will have access to information and advice on their rights to claim housing benefit and any other welfare benefits. A range of rent payment methods will also be made available to customers to enable timely rental payments to be made.

Rent statements will be available on-line to tenants.

10. Annual Review of Rent and Charges

The annual review of charges is an integral part of the budget setting process across the Council and subject to approval. Once agreed the new rent and charges are implemented on the first Monday of April.

The Council will give tenants four 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.

11. Change to the size of an existing property

Where the Council or the tenant increases the size of the property (e.g. an extension providing an additional bedroom) the rent for the property will be reviewed in line with the social rent or affordable rent calculation used.

12. Consultation

The annual draft HRA Revenue and Capital Budget report includes proposals to change rents and service charges, which is available to the public for consultation as part of the Council wider annual budget setting process.

13. Equality and Diversity

A full Equality Impact Assessment (EIA) has been conducted for this policy in accordance with the Council's Public sector Equality Duty (PSED) when carrying out our duties (S149 of the Equality Act 2010) and mitigations put into place where potential negative impacts to individuals with protected characteristics were identified.

14. Review

This policy will be reviewed every three years, unless legislative or regulatory changes require an earlier review.