Doc Number: 3-21	Lead: Director of Housing & Assets	Last Full Review: June 2025

Tick one of the below for review/changes made: **Full review and changes made** ☐ (add changes summary to table below) **Full review, no changes made** ☐ **Changes made but no full review** ☒ (add changes summary to table below)	**Reviewer / Editor:** Housing Revenue Assistant **Changes Approved By:** Director of Housing & Assets **Reviewed and edited in-line with the Beacon?** ☒ Yes ☐ No

Rent Setting Policy

Document Change Details

Date	Summary of Changes Made
October 2023	All policies and procedures revert to version 01, as approval process & version control moved to SharePoint. Version number no longer shown on the document. New front sheet.
June 2025	Changed references to Housing & Property Services Senior Manager to Housing Services Manager
June 2026	Restructure into clear policy & procedure areas and clear separation of initial rent setting and annual review

1.0 INTRODUCTION

Southdown is committed to charging rents that are affordable to tenants and meet the requirements of the Regulator of Social Housing (RSH). This document sets out how we set rents and comply with current legislation and good practice.

As a Registered Provider of Social Housing, the rents that Southdown can charge, and their annual review, are prescribed by the Regulator of Social Housing's Rent Standard Guidance.

Whilst also reviewed annually, shared ownership rents are reviewed by reference to their own individual lease terms.

Service Charges are calculated separately from 'core' rents although they contribute towards the make-up of the overall rent charge and, in the case of 'fixed service charges', are reviewed on the same annual basis.

Since Southdown is part of the Regulator of Social Housing's National Affordable Housing Development Framework, it has the option to convert tenancies let at Target Rents (also known as '*Social*' or '*Formula*' rents) Affordable Rents on a proportion of re-lets and new builds. Calculation of Affordable Rent is not based upon the same formulas and assumptions. Their calculation is explained within this document.

For Shared Ownership properties see the Shared Ownership Management 3.25a Shared Ownership Policy.pdf and 3.25b Shared Ownership Procedure.pdf.

2.0 PURPOSE

The purpose of this policy is to ensure:

- Southdown sets rents at a level sufficient to provide quality, value for money services
- The method of calculation abides by the requirements of the Regulator of Social Housing
- The calculations and the basis for rent and changes to rents are transparent and easily understood
- The rent level reflects the size and amenities of the property
- The method of rent calculation is consistent

3.0 LEGAL AND GOOD PRACTICE FRAMEWORK

Social rent levels are a fundamental part of Southdown's objectives.

This policy is written with reference to the following:

- Tenancy Agreement
- 1985 Housing Act
- 1988 Housing Act
- 1996 Act and relevant legislation
- Homes England's Capital Funding Guide

- Regulatory Framework for Social Housing in England
- The Regulator of Social Housing 'Rent Standard Guidance' 2020
- MHCLG's Policy Statement on Rents for Social Housing
- Taking account of the requirements of funders and partner agencies

Wherever possible we will seek input from tenant representatives where the rent setting substantially changes the rents tenants are being asked to pay.

4.0 RENT SETTING POLICY

General Principles for First Lets All Properties (excluding shared ownership)

When a new property is leased or acquired a New Tenancy Form will be completed and the rent set with reference to Target Rent, Leased Rents or Affordable Rents.

Owned Properties

(This includes properties with leases over 21 years but not Shared Ownership properties)

Southdown will follow the Regulator of Social Housing's Rent Standard Guidance on the RSH's framework for rent setting including the different methods of calculating rents. This guidance should be read in conjunction with the Welfare Reform and Work Act 2016.

4,1 Social (aka 'Target' or 'Formula' Rents)

Southdown will set a **Target Rent** for each property by reference to the 1999 valuation of the property unit. The method of calculation is detailed in Appendix 1.

Across our Supported Living stock and properties with a linked support contract, we will calculate and set rents according to target rent plus the 10% tolerance level allowed for Supported Housing within the rent standard.

Where actual rents exceed the formula rent, Southdown will ensure that annual rent increases will be limited to CPI only, until the rent falls back in line with formula.

For new tenancies the Target Rent will be implemented immediately and adjusted annually by CPI plus 1% (this is also the case for properties let at Affordable Rents but does not apply to re-lets, see section on Affordable Rents below).

In the years 2017/18, 2018/19 and 2019/20, target rents were decreased by 1% year-on-year under the requirements of the Welfare Reform and Work Act 2016. Social Rent setting calculations for rents after April 2019 should replace the CPI+1% formula with -1% for these three years.

4.2 Depreciated Replacement Cost (DRC)

DRC is an alternative method of arriving at the 1999 values, from which social rent calculations are derived (see above) for particular types of property. DRC is intended to provide a better indication of the particular qualities and characteristics of supported housing properties (e.g. communal space and staff rooms) and the costs that may be involved in developing and maintaining them.

In order to be classified as 'supported housing' a property will need to contain certain features and characteristics as defined by the legacy Housing Corporation's Design Quality Standards.

Depreciated Replacement cost is a function of:

- Number of units
- Gross square meterage of the property
- Land area / plot size and land value
- The build cost

A RICS valuer will need to be employed to agree the per unit 1999 value based upon the above factors. This 1999 value provides the base property value from which the DRC based target rent is derived. Southdown will retain the valuation that supports this figure.

4.3 Shared Ownership Properties

The initial weekly core rent of Southdown's shared ownership properties is calculated by reference to a defined percentage of the purchase price of the property less the shared owners' initial stake divided by 52 to crate the weekly amount. Homes England's Capital Funding Guide sets out allowable percentage shares – Southdown historically was able to charge an initial 3% on unsold equity – this has been revised to a maximum of 2.75% for new sales in more recent grant funding rounds.

Each shared ownership lease will contain its own provision for annual review and are not necessarily dictated by the uplifts applied to formula rents.

Where the shared owner subsequently changes their equity share of the property, this weekly rental charge will be recalculated by reference to the revised percentage stake the shared owner now holds in the property- again based upon the original purchase price and reflecting the annual uplifts allowed for within the lease since the original purchase.

4.4 Leased Properties

The formula for leased properties is as follows:

- Lease charge set by Head Landlord = **X**
- Plus 20% for Central Management and Area Administration Costs
- Plus 5% for Void Losses
- Plus 10% for Supported Housing Premium (allowed within Target Rent guidelines).

For example: **X**+(**X**x20%)+(**X**x5%)+(**X**x10%) = Rent Charged

Service Charges will be calculated as specified above under 'General Principles for All Properties'.

4.5 Re-Lets of Leased Properties

Re-let leased properties will be charged at the same rate as the previous tenancy at the same property unless a Head Landlord review of the lease charge indicates the lease charge has increased by more than CPI plus 1% per year since the property was first taken on by Southdown. In this case, the rent will be based on the current lease charge, using the same formula as for new leased properties (paragraph above).

6.0 AFFORDABLE RENTS

As part of the RSH Affordable Rents programme, Southdown are able to let a property at a total rent (inclusive of service charges, where applicable) of up to 80% of the gross market rent, allowing Southdown to utilise the surplus generated above the previous rent (and Service Charge) to fund capital development.

Where a property is identified as suitable and appropriate for letting at Affordable Rents, Southdown must assess the gross market rent the property would achieve and set the initial rent (Note: an Affordable Rent is deemed to include all service charges).

Before a property can be let at Affordable Rents, a proposal must be drawn up providing an assessment of the core rents and service charges the property would generate under the previous framework and detail the Development Capital freed up according to the following calculation:

DC = AR – (R+SC)

DC Development Capital released (weekly)
AR Affordable Rent Proposed (weekly)
R Rent that could otherwise be applied to the property with reference to previous rent calculation formula
(weekly)
SC Weekly Service Charge calculated for services provided which would have previously been applied to
the property (see Service Charge Policy and Procedure).

This 'Affordable Rent' will only be set for a proportion of new lets or re-lets of existing units.

Affordable Rents are altered annually with reference to the same CPI + 1% formula applied to existing tenancies.

7.0 ANNUAL RENT REVIEWS

At the annual rent review, the Rent and Service Charges will be altered in accordance with the terms of the tenancy agreement and the RSH's rent setting guidance.

Tenants will be able to challenge rent increases by appealing to the Housing Services Manager within seven days of receiving their rent notification.

Proposals for increases/decreases across Southdown's stock at April of each year, or the next applicable rental review date, must be approved by Southdown's Board for their confirmation.

If the tenancy agreement states we will alter the rent in accordance with Sections 13 & 14 of the Housing Act 1988 a Form 4B and guidance notes will be posted out with the Standard rent review letter.

Learning Disability tenants will be sent an Easy read rent review letter instead of the Standard rent review letter.

Southdown must ensure individual rents are not increased by more than the Regulator of Social Housing Maximum Individual Increase / Decrease Formula.

For the 2017/18, 2018/19 and 2019/20 years a decrease of 1% was applied, year on year, to the core rent element of the tenants overall rental charge, as per Welfare Reform and Work Act 2016. For general needs tenancies these decreases will also applied for the 2016/17 year.

From April 2020 these rents were again able to be reviewed with reference to the maximum individual increase / Decrease Formula (the current charged rent plus Consumer Prices Index (CPI) plus 1%).

The Government CPI figure as set in the September prior to the April rent increase must be used for rent setting for the whole year up to the next April: e.g. the September 2020 CPI would be used for the rent year running from April 2021 to March 2022.

Southdown will increase rents on the 1st Monday of the new financial year. No Assured or Assured Shorthold Tenant will face more than one increase in any one year, unless it is with the specific agreement of the tenant.

Rent review letters and Form 4b Notices, where applicable, will be sent to tenants at least 28 days before the rent increase comes into effect.

8.0 RENT INCREASES AS A RESULT OF IMPROVEMENTS

If Southdown undertakes an improvement to a property and wishes to increase the rent as a result, it can only do so if two criteria are met:

1. the tenant must have been consulted in advance, advised of and agree with the proposed increase in rent
2. the rent can only be increased if, as a result of the improvement, the 1999 valuation of the property increases or the basis for calculating rental value changes (e.g. the unit becomes self-contained).

Rent Increases which are the result of improvements are still required to meet Southdown's obligations under the Guideline Limit Increase and the Maximum Individual Increase formula.

9.0 INTERNAL REVIEW OF SOUTHDOWN'S RENT REVIEWS

In order to ensure rents are set in accordance with this policy, the Housing Services Manager will review and formally approve the proposed annual changes to rents.

For new rents during the year the Housing Services Manager will undertake to review a 10% sample of rents.

Appendix 1

Target Rent Calculation

Southdown employs the services of professional valuers to value property and arrive at the base value (the 1999 valuation). For properties eligible to have rents set via the DRC valuation methodology, this prescribes an alternative means of arriving at this base valuation that incorporates the specific features present at the scheme.

The target rent calculation prescribed by the Regulator of Social Housing and the same for all Registered Providers, is based on average earnings and property valuations on a prescribed date (base value), currently January 1999 and is as follows:

The Weekly Target Rent is equal to:

70% of the average rent for the Housing Association sector, multiplied by the relative county earnings index, multiplied by the bedroom weighting

PLUS

30% of the average rent for the Housing Association sector, multiplied by the relative property value

MULTIPLIED BY

The maximum rent flexibility allowed by the Rent Standard

To calculate the target rent for an individual property the following information is required:

A. The Average Rent for the Housing Association Sector. In 1999 (table 1.)
B. The National Average Earnings Index. (table 2)
C. The Average Earnings Index for the County where the property is located. (table 2)
D. The Number of Bedrooms / The Bedroom Weighting. (table 3)
E. The National Average Property Valuation for the Housing Association Sector. (table 4)
F. The 1999 Property Valuation for the property in question.
G. The maximum Rent Flexibility permitted by the Rent Standard: 10% if the accommodation is supported housing; or 5% if the accommodation is not supported housing.

The Formula is:

Weekly Target Rent = (((A x 0.7) x (C÷B)) x D) + ((A x 0.3) x (F÷E))*(1+G)

Result = The Weekly Target Rent.

Table 1. Average Housing Association Sector Rent

Year	Average Rent

1999 / 2000	£53.50 per week

***These average rents are calculated by inflating the previous year's figure by the relevant RPI or CPI figure and any allowed uplift (see section 3)**

Table 2. National and County Average Earnings Indices at January 1999

County	Earnings Index
East Sussex	£ 281.50
West Sussex	£ 332.50
National	**£ 316.40**

Table 3. Bedroom Weighting Index

Number of Bedrooms	Weighting
Bedsit	0.80
One Bedroom	0.90
Two Bedrooms	1.00
Three Bedrooms	1.05
Four Or More Bedrooms	1.10

Table 4. National Average Housing Association Property Valuation at January 1999

HA national avg. property value	**£49,750**

Historic RPI* / CPI Figures

Rent Year	Uplift basis	Prev. Sept RPI/CPI	Uplift allowed
1999/2000	RPI+1%	3.20%	1.0%
2000/01	RPI+1%	1.10%	1.0%
2001/02	RPI+1%	3.30%	1.0%
2002/03	RPI+0.5%	1.70%	0.5%
2003/04	RPI+0.5%	1.70%	0.5%
2004/05	RPI+0.5%	2.80%	0.5%
2005/06	RPI+0.5%	3.10%	0.5%
2006/07	RPI+0.5%	2.70%	0.5%
2007/08	RPI+0.5%	3.60%	0.5%
2008/09	RPI+0.5%	3.90%	0.5%
2009/10	RPI+0.5%	5.00%	0.5%
2010/11	RPI+0.5%	-1.40%	0.5%
2011/12	RPI+0.5%	4.60%	0.5%
2012/13	RPI+0.5%	5.60%	0.5%
2013/14	RPI+0.5%	2.60%	0.5%
2014/15	RPI+0.5%	3.20%	0.5%
2015/16	CPI+1%	1.20%	1.0%
2016/17	CPI+1%	-0.10%	1.0%
2017/18	-1%	n/a	-1.0%

2018/19	-1%	n/a	-1.0%
2019/20	-1%	n/a	-1.0%
2020/21	CPI+1%	1.7%	1.0%
2021/22	CPI+1%	0.5%	1.0%
2022/23	CPI+1%	3.1%	4.1%

Appendix 2

Calculating Depreciated Replacement Cost

DRC (1999 value per unit) = ((build rate for area)*(gross internal m2)* (wheelchair multipier)*(new lift multiplier)) + ((land area in hectares)*(per hectare land value))) / number of units.

Area Build Rates and Land Area Value

A	B	C	D	E
871	799	761	737	707

Area	Band	Build Rate	Land Value/H
Lewes	C	761	900,000
B&H	C	761	1,200,000

Adaptation Multipiers

Multipliers	True	False
Wheelchair and specialist fixed equipment	1.12	1
New Lift	1.12	1

Condition multiplier

Multiplier	True	False
One or more of the following apply: 1. no central heating is present 2. the kitchen/s has not been refurbished within the previous ten years 3. the bathroom/s has not been refurbished within the previous 15 years	0.9	1