

Octavia Group Rent Policy

April 2020 – March 2021

CONTENTS

	<u>Page</u>
Introduction to Octavia’s Rent Policy	2
Service Charges	3
Section A – Rents for properties let on “Secure” tenancies	4
Section B – Rents for properties let on Assured tenancies	5
Section C – Rents for properties let under the Affordable Rents scheme	6
Section D – Rents for Assured Shorthold and similar tenancies	7
Section E – Rents for tenants in Supported Housing	8
Section F – Rents for Shared Ownership Properties	9
Section G – Ground Rents for Leaseholders	10
Appendix 1 – The Formula Rent System	11
Appendix 2 – The Affordable Rent System	13
Appendix 3 – Example rent calculations	14

Introduction to Octavia's Rent Policy

1. This document explains how 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 (i.e. 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, as well as changes in legal and regulatory requirements.
4. Octavia'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;
 - (ii) students;
 - (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.
5. 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 (also known as the Social Rent system) and the Affordable Rent system. These systems are described in Appendix 1 and Appendix 2 respectively.
6. Formula rents for Assured tenancies are calculated by reference to an estimate of the 1999 value of the property being rented, relative local earnings and property size. The basis of this calculation is set out in the 2020 Rent Standard and the accompanying guidance in the Policy Statement on rents for social housing (Feb 2019). Formula Rents were previously known as "Target Rents" and are calculated in the same way.
7. 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

8. 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.
9. **Fixed Service Charges**
 - a. 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 within the scheme.
 - b. Once the charge has been set, any variation between the actual cost and the estimate is absorbed by Octavia in that Financial Year.
 - c. The Fixed Service Charge system is used for setting service charges for Octavia's rented properties, where the tenancy agreement provides for a service charge.
10. **Variable Service Charges**
 - a. Under the Variable Service Charge system, an estimate is made in February of the expected cost of delivering services over the next financial year (1 April to the following 31 March). Residents are advised of the costs, and the charge is applied from 1 April.
 - b. 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, there is an additional charge applied to the residents account. Where the actual cost is lower than the estimate, there is a refund applied to the residents account.
 - c. 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 using their statutory rights under the Landlord and Tenant Act 1985.
 - d. A consultation process exists for charging Shared Owners and leaseholders for the cost of any major works or long term works/services agreements 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

11. **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.

12. Rents on New Lettings:

There are no new lettings of properties on secure tenancies (except on transfers - see below).

13. 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 example due to 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 (if lower) the fair rent registered by the Rent Officer at the Valuation Office Agency. Tenants moving to a smaller property will be charged a rent no more than 95% of the previous rent. Note that where there is an existing registered fair rent on the property that will cap the rent. Since it may be an old registration and therefore at a low level, an immediate application must be made to the Rent Officer to register a new fair rent.

14. Annual Rent Changes :

From 1 April 2020, the rent on a property let on a 'Secure' tenancy will rise by inflation +1% (one per cent).

However, the rent charged will not be higher than

- (a) the registered rent for the property (excluding service charges), as set by the Rent Officer; or
- (b) the Formula Rent (subject to the rent caps) for the property, calculated using the Government's formula (see Appendix 1).

15. Rate of Inflation used to determine any increase:

The increase in the Consumer Price Index (CPI) in the September of the preceding financial year. For increases in the year to 31 March 2021, the inflation rate to be used is 1.7% i.e. the increase in the CPI in September 2019.

16. 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. Service charge increases are not subject to the guideline limit of CPI + 1% but the Regulator expects social landlords to "endeavour" to keep any increases within the limit.

Section B – Rents for Properties let on Assured Tenancies

17. 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).

18. 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 (including an optional 5% permitted under the 2020 Rent Standard - 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.

19. 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 the Government Rent Cap for the property (see Appendix 1) when the Cap will apply. Existing Octavia tenants who are required to move by Octavia for example 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.

20. Annual Rent Changes :

From 1 April 2020, the rent on a property let on an Assured Tenancy will rise by inflation +1% (one per cent).

However, the rent increase must not take rent above the rent cap. From April 2021 any increase in rent will be further capped at CPI only, where the existing rent is already above Formula Rent plus the relevant tolerance (5% for general needs).

21. Rate of Inflation used to determine any increase:

The increase in the Consumer Price Index (CPI) in the September of the preceding financial year. For increases in the year to 31 March 2021, the inflation rate to be used is 1.7% i.e. the increase in the CPI in September 2019.

22. 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. (See comment at para.16 above regarding service charge increases).

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

23. **Applies to:**
Tenants who are renting social housing properties from Octavia on assured tenancies let under the Affordable Rents system.
24. **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.
25. **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 that require affordable rent to be charged 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.)
26. **Annual Rent Changes :**
From 1 April 2020, the rent on a property let via the Affordable Rent system will rise by inflation +1% (one per cent).
27. **Rate of Inflation used to determine any increase:**
The increase in the Consumer Price Index (CPI) in the September of the preceding financial year. For increases in the year to 31 March 2021, the inflation rate to be used is 1.7% i.e. the increase in the CPI in September 2019.
28. **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 or personal charges.

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. (See para.16 regarding increases in service charges).

Section D – Rents for Assured Shorthold and similar Tenancies

29. Applies to:

Octavia generally issues Assured Shorthold Tenancies for the following 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.

Octavia also issues fixed term non-secure tenancies for lettings to students

30. 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, in most cases initial rents to be charged to new tenants will be set at the levels advised by the Mayor of London for London Living Rents. In other cases levels will be stipulated by a section 106 agreement or will continue to be at 80% of market rent but linked to household incomes within the London Plan caps of income for intermediate housing.
- 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.

None of these rents are subject to the Rent Standard 2020.

31. 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.

32. Annual Rent Changes :

- Intermediate Rent/Key Worker Housing:** the rent for existing tenants will be increased by inflation plus 1% (one per cent). 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** - 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** - the market rent for the property will be assessed by a local letting agent and the rent increase will be based on this advice.

33. 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 2021, the inflation rate to be used is 1.7% i.e. the change in the CPI in September 2019.

34. 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 ('personal charges').

Section E – Rents for Tenants in Supported Housing (including Sheltered, Extra Care and Special Projects)**35. 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.

36. Rents 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 2020 Rent Standard - see Appendix 1), which will not be more than the Government Rent Cap (see Appendix 1).

37. 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 1).

38. Annual Rent Changes :

From 1 April 2020, the rent on a property let on an Assured Tenancy will rise by inflation +1% (one per cent).

However, the rent charged will not be higher than the rent cap for the property. From April 2021 any increase in rent will be further capped at CPI only, if the existing rent already exceeds Formula Rent plus the 10% tolerance.

33. Rate of Inflation used to determine any increase:

The increase in the Consumer Price Index (CPI) in the September of the preceding financial year. For increases in the year to 31 March 2021, the inflation rate to be used is 1.7% i.e. the increase in the CPI in September 2019.

34. 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. (See para.16 regarding limits on increases in service charges).

Section F – Rents for Shared Ownership properties**35. 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%).

36. **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.

37. **Rents on Transfers:**

This situation does not occur.

38. **Annual Rent Changes :**

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.

39. **Rate of Inflation used to determine any 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 2020, the inflation rate used is 2.4% i.e. the increase in the RPI in September 2019, unless the lease specifies a different calculation.

40. **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 the building, as well as for services provided.

Section G – Ground Rents for Leaseholders**41. 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.

42. Rents on Acquisition:

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

43. Rents on Transfers:

This situation does not occur.

44. Rent Increases :

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

45. Rate of Inflation used to determine any increase:

Usually there is no link between rent increases and inflation.

46. 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.

Appendix 1 – The Formula Rent System

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 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.

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 has required social landlords to reduce their rents by 1% each year for four years (the ‘social rent reduction’). This is designed to help put welfare spending on a more sustainable footing, to ensure that the social housing sector plays its part in helping to reduce the deficit and to reduce costs for tenants paying all or part of their rent. The social rent reduction is subject to a number of exceptions. Most of these exceptions apply for all four years of the reduction, although some only applied for the first year.

From April 2020, registered providers may set the initial rent on properties to be let at social rent at a level that is no higher than formula rent.

The basis for the calculation of formula rents is:

- 30% of a property’s rent is based on relative property values
- 70% of a property’s rent is based on relative local earnings
- a bedroom factor is applied so that, other things being equal, smaller properties have lower rents

<p>Weekly formula rent is equal to:</p> <p>70% of the national average rent Multiplied by relative county earnings Multiplied by the bedroom weight</p> <p>Plus</p> <p>30% of the national average rent Multiplied by relative property value</p>
--

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.

The government’s policy recognises that registered providers should have some discretion over the rent set for individual properties, to take account of local factors and concerns, in consultation with tenants. As a result, the policy contains flexibility for registered providers to set rents at up to 10% above formula rent for supported housing and 5% for general needs. Registered providers must have a clear rationale for applying the tolerances based on local circumstances and affordability.

The rent caps apply as a maximum ceiling on the formula rent, and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap must be used instead.

	Initial rent caps in 2002/03	Rent caps 2020/21
Studios / 1 bed flats	£85.00 per week	£145.96 per week
2 bedrooms	£90.00 per week	£154.53 per week
3 bedrooms	£95.00 per week	£163.12 per week
4 bedrooms	£100.00 per week	£171.69 per week
5 bedrooms (from 06/07)	N/A	£180.28 per week
6 bedrooms or more	N/A	£188.86 per week

Registered providers must not allow rents to rise above the rent cap level for the size of property concerned.

From 2020-21 onwards, the rent caps will increase by CPI (at September of the previous year) + 1.5 percentage points annually (the figures above already incorporate the increases for 2020/21).

Appendix 2 – The Affordable Rent System

In 2011, the government introduced ‘affordable rent’ which permits rents (inclusive of service charges) to be set at up to 80% of market rent (inclusive of service charges). The introduction of affordable rent made it possible to build more homes for every pound of government investment, allowing more people in housing need to have access to a good quality home at a sub-market rent. Landlords can only let new properties at affordable rent where certain conditions apply. Within the terms of the government’s affordable homes programmes, existing vacant properties can be converted from social rent to affordable rent in certain circumstances.

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. 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).

Following consultation with the Octavia Housing Tenants Steering Group, it was agreed not to charge Affordable rents on bedsit or studio properties.

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.

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.

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.

Appendix 3 – Example rent increase calculations (excluding service charges)**(1) Rent increase in April 2020 for an Assured tenant with rent below the Rent Cap**

Example for an assured tenant in a one bedroom flat with a rent (excluding service charges) in 2019/20 of £100.00 per week and a Rent Cap for 2020/21 of £145.96, the rent increase in 2020/21 would be £2.70 per week calculated as follows:

Inflation (at Sept 2019)	1.7%	£1.70
+ 1.0%		<u>£1.00</u>
Total		<u>£2.70</u>

The rent remains well within the rent cap so the cap does not apply. Note: from April 2021 increases will be limited to CPI only, if the existing rent is already above formula rent plus the relevant flexibility.

(2) Rent increase in April 2020 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 2019/20 at the Government Rent Cap of £158.06 per week, the proposed rent increase for 2020/21 would be £4.27, as calculated as follows:

The proposed rent increase for 2020/21 would be

Inflation (at Sept 2019)	1.7%	£2.69
+ 1.0%		<u>£1.58</u>
Total		<u>£4.27</u>

The rent cap will increase in 2020/21 by Inflation (at Sept 2019 = 1.7%) plus 1.5% to £163.12, equivalent to £5.06:

Inflation (at Sept 2019)	1.7%	£2.69
+ 1.5%		<u>£2.37</u>
Total		<u>£5.06</u>

Because the increase in the rent cap keeps ahead of the annual increase, this means that the full CPI + 1% increase does not exceed the rent cap.

(3) 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 2019/20 at £100.00 per week and no service charges, with a Formula Rent for 2020/21 of £150.00 and a Registered Rent of £102.00 per week, the maximum rent increase for 2020/21 would be £2.00.

The actual rent increase would otherwise be £2.70 per week calculated as Inflation (£1.70 ie £100.00 at 1.7% being CPI in Sept 2019) plus a further £1.00 (i.e. £100.00 at 1.0%) but the increase is restricted to £2.00 because the Registered Rent calculated by the Rent Officer at the Valuation Office Agency is £102.00 i.e. only £2.00 higher than the existing rent.

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