

## Rent policy

### 1. Introduction

- 1.1 This policy sets out the approach to the setting and management of rent at Octavia, in line with best practice and relevant legislation and guidance.
- 1.2 The level of rent that we can charge is impacted by regulatory requirements, legislation, tenure and product. This policy reflects all factors which may impact the level of rent charged and how those rents may change during your tenancy.
- 1.3 For the purposes of this policy, any references to 'you' or 'your' mean the tenant or homeowner who is responsible for the payment of rent. Any reference to 'we', 'our' and 'us' means Octavia.
- 1.4 Where words or phrases have been capitalised which otherwise would not normally be, these relate to terms which appear in section 5: Definitions.

### 2. Scope

- 2.1 This policy applies to all residential properties owned or managed by Octavia Housing and any of its subsidiaries and related companies where rent is charged.
- 2.2 We have separate policies which relate to rent collection and service charges. These matters are outside the scope of this policy. A list of these can be found in the 'related policies' section.
- 2.3 The rent policy covers the following tenures and products:
  - Secure Social Housing Tenancies (generally those with tenancies that commenced before January 1989) (see **section 7**)
  - Assured Social Housing Tenancies (generally applies to Octavia properties acquired after January 1989 but before 30 November 2011). (See **section 8**)
  - Affordable Social Housing Tenancies (generally those who became Octavia tenants under the Affordable rent system after 30 November 2011) (see **section 9**)
  - Assured Shorthold and similar Tenancies, generally for:
    - those housed under Intermediate Housing arrangements;
    - students;
    - residents housed under the Rent to Homebuy scheme; and
    - market rent tenants (see **section 10**)
  - Rent for tenants in Supported housing including schemes managed on behalf of the association by managing agents (see **section 11**)
  - Rents for those who acquired a proportion of the ownership of their home under Shared Ownership/low-cost home ownership arrangements (see **section 12**)
  - Ground rents for leaseholders where Octavia owns the freehold (see **section 13**)

### 3. Relevant legislation & guidance

- 3.1 The following legislation and guidance have been considered when writing this policy:
  - Rent Act 1977

- Housing Act 1980
- Housing Act 1988
- Welfare Reform and Work Act 2016
- Regulator of Social Housing: Rent Standard 2020
- MHCLG: Policy Statement on Rents for Social Housing 2019
- Leasehold Reform (Ground Rent) Act 2022

## 4. Policy objectives

4.1 This policy sets out how we intend to meet our legislative and regulatory obligations, along with the terms of your lease or tenancy agreement that apply to rent.

4.2 We will take a clear, consistent and transparent approach to setting rents.

## 5. Definitions

5.1 **Consumer Prices Index (CPI)** – the CPI measures the overall change in prices paid by United Kingdom (UK) consumers. It is based on a representative basket of goods and services over time. It is a recognised national measure of inflation within the UK.

5.2 **Retail Prices Index (RPI)** – the RPI measures the overall change in prices based on a basket of goods, similar to CPI. The overall baskets however do not contain the same goods and the RPI measures price changes including average UK house prices and interest rates. It is no longer a recognised national measure of inflation within the United Kingdom but is still calculated by the Office of National Statistics as leases and historical arrangements such as loans are often linked to RPI, rather than CPI.

5.3 **Relevant CPI** - Relevant CPI is, in the case of this policy, the CPI for the September before the April the rent will change. For example, if a rent is changing in April 2025, the CPI figure for September 2024 would be used as part of the calculation.

5.4 **Fair Rent** - is the maximum we can charge a tenant who is protected by a secure tenancy. These values are set on request by a Rent Officer at the Valuation Office Agency (VOA) and can be requested every two years.

5.5 **Formula Rent** - is a method for ensuring that rent levels for social tenancies remain reasonable based on several factors. These factors are:

- The relative property value (value of the property versus the national average)
- The relative average earnings of the county the property is in, otherwise known as county earnings – (value of county earnings versus the national average)
- The number of bedrooms in the property

All of these factors generate an amount of weekly rent for a property. More details can be found on how this is calculated in Appendix 1.

5.6 **Government Rent Cap** - the Government Rent Cap acts as a maximum ceiling on the formula rent, and helps ensure rents are reasonable, even in high-value, high-earning areas such as London. The rent caps used were originally set for April 2002 and have been amended in line with policy and inflation every year. More details can be found in Appendix 1.

## 6. Related Policies

- 6.1 Service Charge Policy
- 6.2 Rent Management Policy

## 7. Secure Social Housing Tenancies

- 7.1 This section applies to tenants renting general needs social housing properties (including some Older People's Housing) from Octavia under "Secure" tenancies, which were generally issued before 1989.
- 7.2 We no longer issue Secure tenancies. Secure tenancies can though be transferred to other properties (see section 7.3).
- 7.3 Transfers of "Secure" tenancies will only arise when an existing "Secure" tenant moves to another Octavia property. Where we require the move, 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). This 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 of no more than 95% of the previous rent. 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.
- 7.4 Ordinarily, in April of each year, the rent for a property let on a secure tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7%. The rent will not be higher than:
  - The Fair Rent for the property
  - the Formula Rent for the property
  - the Government Rent Cap of 7%

Should any of these be lower than the new rent, the lowest of these figures will act as a cap to the amount that can be charged.

## 8. Assured Social Housing Tenancies

- 8.1 This section applies to tenants who are renting social housing properties (but also including some Older People's Housing) from Octavia under Assured Tenancies.
- 8.2 Where a new let of an assured tenancy is identified, will be the Formula Rent, including an optional 5% permitted under the Rent Standard 2020 (outlined in Appendix 1). Should the Government Rent Cap be lower than the Formula Rent identified for the property, we will charge the rent capped amount.
- 8.3 Where existing Octavia assured tenants transfer to another property permanently, they will enter into a new tenancy. The approach outlined in 8.2 will apply in these cases. Where we require an existing assured tenant to move (for example due to redevelopment) and the intention is they will move back to their property or an equivalent, the tenant will be charged their existing rent, adjusted for any change to the number of bedrooms. When tenants move to a smaller property, they will be charged no more than 95% of the previous rent.

8.4 Ordinarily in April of each year, the rent for a property let as an assured tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7%. The rent will not be higher than:

- the Formula Rent for the property
- the Government Rent Cap of 7%

Should either of these be lower than the new rent, the lowest of these figures will act as a cap to the amount that can be charged.

## 9. Affordable Social Housing Tenancies

9.1 This section applies to tenants who are renting social housing properties from Octavia under the Affordable Rents system.

9.2 Where a new property is let under the Affordable Rent System the London Affordable Rent rates will be used, unless otherwise stipulated when the property was developed. Further details of how this applies to Octavia can be found in Appendix 2.

9.3 Ordinarily in April of each year, the rent for a property let as an assured tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7%.

9.4 For Affordable Rents that are not under the London Affordable Rent programme, service charges are included in the rent charged. We will, however, separately identify the service charge. Additional charges may be levied for services provided for the use of a particular tenant. For those under the London Affordable Rent programme, service charges are not included in the rent. In these cases, service charges will be managed in accordance with the service charge policy.

## 10. Assured Shorthold and similar Tenancies

10.1 This section applies to Assured Shorthold Tenancies. These are commonly under the following products:

- Intermediate Rent (including key worker accommodation)
- Student Housing
- The Rent to Homebuy scheme
- Market Rent

10.2 Starter tenancies and those tenancies under the Rough Sleepers Initiative which have an Assured Shorthold tenancy are managed under section 8 of this policy.

10.3 Rent upon letting is as follows:

### **Intermediate Rent/Key Worker Housing**

For properties acquired before December 2011, initial rents to be charged to new tenants will be set based on agreements with the local authority and under a relevant scheme, 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 within the planning agreements 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**

Rents are to be charged for new tenants 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 the 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.

10.4 It is not anticipated that existing tenants would transfer into properties which fall within this section of the policy, however if this did happen, the rent would be calculated as set out in 10.3.

10.5 Changes to rent will be managed as follows:

### **Intermediate Rent/Key Worker Housing**

Ordinarily in April of each year, the rent for a property let as an assured tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7% and will not exceed 80% of market rent.

### **Student Housing**

Ordinarily in April of each year, the rent for a property let as an assured tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7% and will not exceed 80% of market rent.

### **Rent to Homebuy Scheme**

Ordinarily in April of each year, the rent for a property let as an assured tenancy will rise by the Relevant CPI, plus 1%. However, in accordance with the Government Rent policy, the maximum rent increase in 2023/24 for existing tenants will be capped at 7% and will not exceed 80% of market rent.

### **Market Rent**

The market rent for the property will be assessed by a local letting agent and will be amended based on this assessment.

## **11. Rents for Tenants in Supported Housing (including Sheltered, Extra Care and Special Projects)**

11.1 This section applies to tenants who are renting supported housing properties from Octavia which are specially designed for people who need additional support to maintain their tenancy.

11.2 Where a new let is identified, the starting rent for their property will be the Formula Rent, including an optional 10% permitted under the Rent Standard 2020 (outlined in Appendix 1). Should the Government Rent Cap be lower than the Formula Rent identified for the property, this will cap the amount to be charged. The same rules apply to transfers.

11.3 In April each year, the rent for a property let as a supported housing property will rise by the Relevant CPI, plus 1%. the Government Rent Cap does not apply; however, we recognise the current cost of living crisis and therefore are looking at putting in place a hardship fund. The rent will not be higher than:

- the Formula Rent for the property

Should either of these be lower than the new rent, the lowest of these figures will act as a cap to the amount that can be charged. Should the existing rent be greater than Formula Rent plus 10%, rent increases will be capped at Relevant CPI only.

## 12. Shared Ownership

- 12.1 This section applies to those who have bought a percentage of their home but have not yet staircased to 100% ownership, with Octavia owning the remaining unpurchased share on which the rent is payable.
- 12.2 The amount and terms on which shared ownership rent is calculated and set will be set out in the lease and will differ from development to development and depend on the share of the property owned.
- 12.3 Ordinarily in April of each year, changes to rent for shared ownership are set out in the lease and may differ depending on the age of the lease. Commonly, RPI is used to calculate shared ownership rent increases with a 0.5% percentage applied in addition to inflation. However, recommendations by the NHF are a voluntary cap of 7%, and after legal advice from Devonshires, recommendations are to apply the rent review mechanism in line with the current shared ownership lease terms and look through forgiveness for the difference between 13.1% & 7% to help mitigate the impact for residents.

## 13. Ground Rent for Leaseholders

- 13.1 This section applies to those who own 100% of the leasehold of their property, with Octavia as the Freeholder and have a lease which contains a clause permitting the charging of Ground Rent.
- 13.2 The amount to be charged annually in Ground Rent will be stipulated within the lease agreement. Usually, this is not linked to inflation.
- 13.3 In some cases, the lease will permit periodic increases to the Ground Rent. These will be detailed in the lease.
- 13.4 It should be noted that all leases granted where contracts exchanged after 30 June 2022 will be charged a rate of 'one peppercorn' a year. For these leases, Octavia will not collect any money relating to Ground Rent.

## 14 How we will manage your personal data

- 14.1 We will manage and process personal data in compliance with the Data Protection Act 2018 and UK GDPR. For further information on how we process personal data, see the Octavia Data Protection Policy, and Octavia Privacy Notice.

## 15 Equality, Diversity and Inclusion

- 15.1 We will apply this policy fairly and consistently. We will deliver all services and activities within the spirit and context of current Equality legislation including the Equality Act (2010).
- 15.2 We will not discriminate against any person or group of persons on the grounds of: age; disability; gender reassignment; marriage or civil partnership; pregnancy or maternity; race; religion or belief; sex; sexual orientation.

## 16 Contact for further information

16.1 If you wish to discuss service charges you can contact us in the following ways:

Phone: 020 8354 5500

Email: [info@octavia.org.uk](mailto:info@octavia.org.uk)

More information can also be found at [www.octaviahousing.org.uk](http://www.octaviahousing.org.uk)

## 17 Appendices

**Appendix 1 – The Formula Rent System**

**Appendix 2 – The Affordable Rent System**

Revision History		
Date	Reviser	Revision Detail
13/01/2023	SO, Assistant Director, Finance, Financial Control	Updated to reflect new rent cap and legal guidance

Title: Rent Policy | Policy Owner: Assistant Director of Financial Control | Approved by: Chief Executive Officer  
21/02/2023

## 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 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.

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 several 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

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

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.

The figures below refer to 2023-24 and are for illustration purposes only.

	Initial rent caps in 2002/03	Rent caps 2023/24
Studios / 1 bed flats	£85.00 per week	£173.79 per week
2 bedrooms	£90.00 per week	£184.00 per week



3 bedrooms	£95.00 per week	£194.22 per week
4 bedrooms	£100.00 per week	£204.43 per week
5 bedrooms ( from 06/07)	N/A	£214.66 per week
6 bedrooms or more	N/A	£224.87 per week

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

## 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, an 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.