

## Appendix 1

### Barnet Council – Draft Rents Policy June 2015

#### 1. Introduction

The Council has identified the need for more homes that people can afford in its Housing Strategy. This draft rents policy aims to help meet this need by raising additional income to build more Council Homes at affordable rents than could otherwise be provided.

The Council also recognises the benefit of providing homes at a lower rent to households on low incomes, but will seek to take a more targeted approach that takes into account our other key housing policies, including our Housing Allocations Scheme and Tenancy Strategy.

#### 2. Local Priorities

The Council's wider objectives are set out in the Corporate Plan and seek ensure that Barnet is a place:

- Of opportunity, where people can further their quality of life.
- Where responsibility is shared, fairly.
- Where people are helped to help themselves, recognising that prevention is better than cure.
- Where services are delivered efficiently to get value for money for the taxpayer.

The Council's approach to rent setting reflects these objectives by seeking to provide more affordable homes as a platform for helping people to help themselves, and to help prevent homelessness. In addition, this policy seeks to provide a clearer and fairer approach to rent setting.

The Council's draft Housing Strategy has identified the following objectives:

- Increasing the housing supply
- Delivery of homes that people can afford
- Sustaining the quality of the private rented sector
- Tackling homelessness
- Providing housing related support to vulnerable people
- Providing high quality services

This rents policy will contribute to these objectives, by increasing the money available to invest in building new affordable homes, including some supported housing for vulnerable people.

The Council's Tenancy Strategy recognises the role of council housing in providing an opportunity for people who have been made homeless to get their lives back on track with the aim of helping households becoming more independent in the longer term. The Council's rent policy will support this approach by providing lower affordable rents for the first five years of a flexible tenancy.

#### 3. National and Regional Context

The current national rent policy for rented homes distinguishes between rents for new affordable homes and those of existing properties and with different approaches for housing association and council tenants.

New homes built by housing associations receive a level of subsidy which means that affordable rents of up to 80% of average private sector rents should be charged to cover the difference between the building costs and the amount of grant received.

For existing housing association homes built before 2012, rents will generally increase by CPI<sup>1</sup> + 1% each year, although some properties may be let at the higher affordable level when they become empty if the additional money raised is used to build new homes.

For council homes, the Government recommends that rents are also increased by CPI + 1% each year, although if Councils build new homes using money received from Right to Buy sales, these should be charged at affordable rents of up to 80% of market rents.

The Mayor of London is responsible for the affordable housing programme in the Capital, and has taken a slightly different approach within the context of national policy, seeking rents either capped at 50% or discounted to 80% of private sector market rents, with the latter not available to households who are not working.

Prior to this approach described above, there was a national policy of convergence between council and housing association rents, and councils and housing associations are still expected to let their homes at formula or target rents determined by the convergence policy as they become empty.

This draft policy aims to ensure that a more consistent approach is taken to rent setting for homeless households rehoused by the council regardless of tenure, and that aligns with our Tenancy Strategy.

#### 4. Current Position

As illustrated in table 2 below, council rents are currently significantly below those charged for new affordable homes (i.e. 65% of average private sector rents) and average rents in the private rented sector:

Beds	1	2	3	4+
Council	£90	£103	£117	£133
Housing Association <sup>2</sup>	£117	£127	£143	£155-171
Private Sector	£237	£307	£402	£762
Affordable @65% of Private Sector Average	£154	£200	£261	£495
Local Housing Allowance	£185	£242	£303	£374

**Table 1 – Average Rents in Barnet + Lowest Local Housing Allowance Levels**

In addition, in Barnet council rents have not achieved full convergence with the formula rents described in section 2 above and as set out in Chart 1 below:

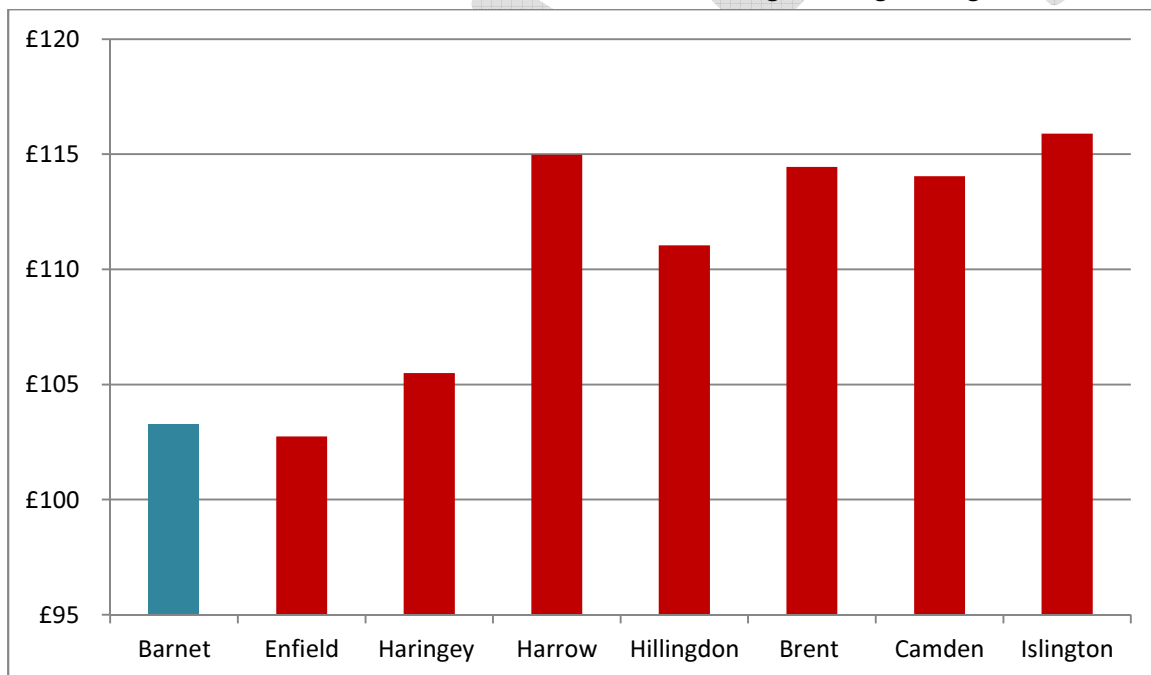
<sup>1</sup> Consumer Price Index

<sup>2</sup> Average Housing Association Rents for existing stock



**Chart 1-** Actual Average Rents and Target Rents – Barnet Council Homes April 2015

Barnet Council rents are also lower than those in all but one neighbouring borough as shown in Chart 2:



**Chart 2-** Average Council Rents in North London April 2015

## 5. Policy for Barnet Council Rents

As shown in section 4 above, council rents in Barnet are currently lower than all other forms of renting in the borough and lower than council rents in most neighbouring local authorities. There is scope, therefore, for taking an approach which will raise additional revenue for building new homes. The Council has developed this policy taking into account National and Regional Policies described in section 3 above, as well as its own local policies including the Corporate Plan, Housing Strategy, Tenancy Strategy and Housing Allocations Scheme. Key principles that underpin the Council’s rents policy are as follows:

- Any new properties that the Council builds should be subject to affordable rents in line with national and regional rent policy.
- New tenants housed through the Council's allocations scheme will be charged an affordable rent. The Council considers that this approach is fairer as many housing association properties are already let at affordable rents
- Existing tenants should be moved to target rents as soon as possible, as these rents will be in line with national policy guideline
- Rents charged by the Council should not exceed Local Housing Allowance levels
- The additional income raised will be invested in building new affordable homes.

These principles will be applied as follows:

**New Homes** – All newly built council homes will be let at affordable rents of 65% of the average market rent. The methodology for calculation of affordable rents is set out in section 5 below.

**New Tenants** – New tenants who benefit from a lifetime tenancy will be charged an affordable rent of 65% of the average market rent. New tenants who are granted a five year flexible tenancy will be charged an affordable rent of 50% of average market rent which will increase to 65% of the average market rent<sup>3</sup> if the tenancy is renewed after five years in line with the tenancy strategy. This approach recognises that there is a benefit to being granted a lifetime tenancy which should be reflected in a higher rent, whilst also offering households facing the personal upheaval associated with homelessness a lower rent period in which to get back on their feet, and, if they are not already in work, to find employment.

Younger people under the age of 25 who are granted a two year flexible tenancy will be charged an affordable rent of 50% of average market rent. If their tenancy is extended for another two year period, the rent will continue at 50% of average market rent, if their tenancy is extended for a further five years because they are over 25, the rent will be increased to 65% of the average market rent.

Once rents have been set for a property, they will be increased by CPI +1% every April, with no change applied if CPI + 1% is negative. This will provide tenants with more certainty about future rent increases and protection from potentially higher rent increases in the private rented sector.

**Existing Tenants** – the council recognises that existing tenants would be significantly impacted by increasing rents to affordable levels in line with national and regional policy on rents for new affordable homes. In view of this, the Council will move all existing rents to the target level that was formulated to move council rents to convergence with housing association rents.

Where the existing weekly rent is more than £10 below the target rent, the increase in rent will be capped at £10 a week each year until the target rent is reached. Where a rent is already above the target rent, no rent increase will apply.

Some council rents are already at target level and from April 2016 an increase of CPI+1% only will be applied where this is the case.

Future rent increases beyond 2016 will be set at CPI+1% every April, with no change applied if CPI+1% is negative.

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<sup>3</sup> Where a rent is increased to 65% this will be based on rent levels in the private rented sector at the time.

**Tenants transferring to another council property-** where a tenant is transferred to another council property, the rent in their new home will depend on the rent they pay in their existing home. If they are paying a target rent, then they will pay the target rent for their new home, whilst tenants paying an affordable rent will pay an affordable rent for their new home in the event that they are transferred.

The Council is currently building new council homes, and all tenants who are housed in these properties will be required to pay an affordable rent based on 65% of average private sector rents, reflecting the additional value associated with these brand new properties.

**Local Housing Allowance (LHA)** – LHA determines how much rent will be taking into account when housing benefit is calculated. The Council will not charge rents which exceed LHA.

## 6. Regeneration Estates

The Council is currently implementing a programme of regeneration of several of its largest council estates, including Grahame Park, West Hendon, Dollis Valley, and Stonegrove/Spur Road. The Whitefields Estate is also being redeveloped as part of the Brent Cross/Cricklewood project.

For existing secure tenants on the regeneration estates, there are already guarantees which mean that if they are rehoused in one of the new homes being provided they will benefit from a target rent regardless of whether they remain a council tenant or become a tenant of a housing association.

A significant number of properties on the Regeneration Estates have been let on as temporary accommodation on a non-secure tenancy. For existing non-secure tenants, rents will be moved to target rent levels from April 2016 where rents currently fall below this. For new non-secure tenants, affordable rents will be charged based on 50% of average private sector rents at the time of letting, with increase of CPI + 1% applied in April each year thereafter.

## 7. Methodology for Setting Affordable Rents

Affordable rents for individual properties will be determined by 4 elements. These are set out below and are illustrated with worked examples in **Appendix 1**:

**Step 1** The latest figures for private sector rents from the Valuation Office Agency which include average rents at a borough wide level and by bedroom size. The most up to date figures are set out in table 3 below:

Size	Average Weekly Rent
Room	£123.46
Studio	£179.77
1 Bed	£237.23
2 Bed	£307.15
3 Bed	£402.00
4 Bed +	£762.69
All	£337.15

**Table 3-** Valuation Office Agency (VOA) Rents Sept 2014

**Step 2** An adjustment based on the type of property to take account of the relative values of flats and houses, and whether a garage is included. The adjustments proposed are shown in table 4 below:

Property Type	Adjustment
Hostel	-30%
Sheltered	-25%
Flat	-20%
Flat and Garage	-15%
Maisonette	-15%
Bungalow	5%
House	7%
House and Garage	10%

**Table 4** – Adjustments for property type

The Council will carry out local market research to establish the actual rent differentials between different types of property in the borough before this policy is finalised.

**Step 3** An adjustment based on the existing valuations used to determine the formula rent which will reflect variances in property values at a more local level. 20% of the rent will be influenced by the difference between the valuations for each property when compared to the average valuation for that property type. For new properties built by the council a new valuation of the property will be made.

**Step 4** An adjustment of either 65% or 50% to the figure arrived at in Step 3 will be applied dependant on whether the tenancy is for a new property(65%), lifetime tenancy ( 65%) or a flexible tenancy in an existing council home (50%), or a flexible tenancy granted to a young person under the age of 25 years ( 50%).

**Step 5** No rents will be higher than Local Housing Allowance (LHA) levels for the area that the property is in. The current LHA levels are shown in table 5 below:

Broad Market Rental Area	LHA April 2015				
	Room	1 Bed	2 Bed	3 Bed	4 Bed
Inner North London Golders Green, Temple Fortune, Cricklewood, Hampstead Garden Suburb and parts of East Finchley	£97.83	£260.64	£302.33	£354.46	£417.02
North West London Edgware, Burnt Oak, Colindale and West Hendon	£87.40	£185.81	£242.33	£303.00	£374.40
Outer North London High Barnet, Friern Barnet, Mill Hill, Hendon, Finchley, and parts of East Finchley	£90.64	£199.68	£255.34	£315.12	£388.65

**Table 5** – LHA levels in Barnet

Examples of how affordable rents will be calculated are shown at appendix 1

## 8. Implementation

This policy will be implemented as soon as practicable subject to approval by the Council's Policy and Resources Committee, which will consider the final draft in autumn 2015.

## Appendix 1 - Worked Examples of Affordable Rents

### Example 1- 2 Bedroom Flat let on a flexible tenancy Inner NW London LHA area

- Step 1 Valuation Office Agency average rent = £307.15  
Step 2 Adjustment for property type= minus 20% = 245.72  
Step 3 Adjustment for valuation –  
a) Valuation for property = 80,000  
b) Avg. Valuation for all 2 bed council flats = 65,314  
c) Calculate a) as a % of b) less 1<sup>4</sup>= plus 22%  
d) Calculate 20% of rent at Step 2 = £49.14  
e) Multiply d) by c) = £10.81  
f) Add e) to rent at Step 2 = £256.53  
Step 4 Adjustment of 50% to rent at f) for affordability on flexible tenancy = £128.27  
Step 5 Check against LH £255.34 – in this case rent at Step 4 is lower than LHA  
Therefore net weekly rent = **£128.27**

### Example 2 –4 Bedroom House let on a lifetime tenancy NW London LHA area

- Step 1 Valuation Office Agency average rent = £762  
Step 2 Adjustment for property type= plus 7% = £815.34  
Step 3 Adjustment for valuation –  
a) Valuation for property = 99,975  
b) Avg. Valuation for all 4 bed council houses = 106,378  
c) Calculate a) as a % of b) less 1= minus 7%  
d) Calculate 20% of rent at Step 2 = £163.01  
e) Multiply d) by c) = minus £11.41  
f) Add e) to rent at Step 2 = £803.93  
Step 4 Adjustment of 65% to rent at f) for affordability on lifetime tenancy = £522.55  
Step 5 Check against LHA £388.65 – in this case rent at Step 4 is higher than LHA  
Therefore net weekly rent = **£388.65**

### Example 3 – 1 Bedroom newly build flat let on a flexible or lifetime tenancy Outer NW London area

- Step 1 Valuation Office Agency average rent = £237  
Step 2 Adjustment for property type= minus 20% = £189.78  
Step 3 Adjustment for valuation –  
a) Valuation for property = 75,000  
b) Avg. Valuation for all 1 bed council flats = 56,000  
c) Calculate a) as a % of b) less 1= plus 33%  
d) Calculate 20% of rent at Step 2 = £37.96  
e) Multiply d) by c) = plus £12.53  
f) Add e) to rent at Step 2 = £202.31  
Step 4 Adjustment of 65% to rent at f) for new build property = £131.50  
Step 5 Check against LHA £199.68 – in this case rent at Step 4 is lower than LHA  
Therefore net weekly rent = **£131.50**

<sup>4</sup> i.e. (£80,000 divided by £65,314 = 122% ) less 1 = plus 22%

## Glossary

**Affordable housing:** Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market.

**Affordable Rent Housing:** is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the average local market rent (including service charges, where applicable).

**Flexible tenancy:** a form of secure tenancy which lasts for a fixed—term period of 2 or 5 years. The tenancy may be extended for a further term. Also known as fixed-term tenancies. Given that most flexible tenancies also have an introductory first year these tenancies actually last for 3 or 6 years.

**Greater London Authority (GLA):** A strategic body constituted under the Greater London Authority Act 1999, consisting of the Mayor of London, the London Assembly and staff, which has responsibility for producing regional policy in a number of areas, including transport, economic development, planning, housing and the environment for London.

**Housing Revenue Account (HRA):** This is the Council's landlord's account, which shows all of a Local Authority's income and expenditure arising from its role as the owner of housing. The account is 'ring fenced'; that is, no transfer can be made between it and the rest of the Council's accounts, the 'General Fund'. Other powers and duties of a Housing authority, for example the duty to the homeless, the 'enabling' role in promoting Housing Association activity in the area, and grants for private sector housing are General Fund activities.

**Lifetime tenancy:** a form of secure tenancy which lasts for the life of the tenant. Includes a tenancy agreement which sets out certain rights, including the right to buy

**Local Housing Allowance (LHA):** This is a simplified housing benefit system for people on benefits or low incomes who rent from private landlords. LHA is based on the number of rooms people are allowed, not how much rent is charged. The number of rooms allowed depends on who lives with the tenant.

**Local Tenancy Strategy:** sets out the type of tenancy a new tenant may be allocated, such as a non-secure tenancy, a fixed-term flexible tenancy (of 2 or 5 years) or a lifetime tenancy. Fixed term and lifetime tenancies are secure tenancies under the law and confer certain

**Registered Social Landlord (RSL):** - A social housing organisation that is registered with the Homes & Communities Agency and is often referred to as a housing association.

**Registered Providers:** Registered Provider landlords are independent non-profit making housing associations aiming to provide affordable homes for people in housing need. Registered Providers are also known as Housing Associations.

**Rent Policy:** Sets out how rents on council homes are determined.

**Social Rented Housing:** is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which target rents are determined.

**Target rent:** rent set by formula which takes into account the value of the property and the number of bedrooms. Target rents are currently increased by Consumer Prices Index inflation plus 1%.