

## **Twenty11 (Homes) Ltd Rent Setting Policy**



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## Definitions

**Twenty11** The landlord, the owner of Twenty11 homes, a Community Benefit Society.

**Pennvale** Red Kite Group's commercial subsidiary providing letting and management services.

**Household** Everyone who is ordinarily living at the property including both adults and children.

**CPI** The Consumer Price Index; a comprehensive measure of inflation by estimating price changes in typical goods and services. It is common place to use CPI as a basis for rent increases and is used by many providers of affordable housing.

**JRF MIS** Joseph Rowntree Foundation's Minimum Income Standard (JRF MIS) is a national research project based on asking groups of members of the public to discuss and reach a consensus on the items and services households need to reach an acceptable standard of living, covering essential needs and also allowing household members to participate in society. The project has produced a minimum income level for each household composition in Britain since 2008 and is updated annually (taking into account the number of children, adults of a working age and pensioners in any one particular household). More information on JRF's minimum income standards is available from their website: <http://www.jrf.org.uk/topic/mis>.

**Discounted Rent** Rent that is sub-market and is set in accordance with section 5 of this policy applying to local rental homes.

**Capped LHA Rent** The rent level which will apply when tenants are in unemployed and in receipt of Universal Credit or where in employment but with a level of residual monthly income lower than 50% of the market rent of the property they are applying for. This will normally be Local Housing Allowance except where LHA is more than 70% of market rent, in that case the rental is capped at 70% market rent.

**Residual Monthly Income** The remainder of a household's monthly income after their JRF MIS has been subtracted and the figure used to set a discounted rent.

**Exceptional Discounted Rent** A rent set at a discount to market rent of between 50% and 60% (so the rent will be set between 40% and 50% of market rent).

**Qualifying tenancy** A home offered at a minimum discount to market rent of 20% (so any tenancy offered at a rental of 80% market rental or less). This is the recognised de minimis discount for a home to qualify as consistent with Twenty11's charitable status and relevant therefore in protecting that status. A rent set at this level will be classified as a **qualifying rent**. Any tenancy offered at market rent or a discount to market rent of lower than 20% will not be a qualifying home.

**Market Rent** A rental set in accordance with section 6 of this policy and also the point of comparison for determining the discounted value of a qualifying rent. It will be determined with reference to a chosen research database which the Red Kite group will use for determining market rentals on its homes.

**Verified Housing Income** A household's income as recorded in the outcome of a successful Discounted Rent assessment (see Discounted Rent Assessment Methodology, Appendix 1, for more information).

## **Policy**

### **1. Preamble**

1.1 Designed to address the current challenges faced by our communities in the 21st Century, Twenty11 will position us as not only a trusted and valued landlord, but one that helps to realise the potential in our communities. Fundamental to this ambition being achieved is the ability to use new regulatory freedoms to offer rents that flex as people's circumstances change. By applying a tailored approach around individuals and not groups with an assumed need, rents will be based on a person's ability to pay which will initially be set at what is affordable for each household – subsidy will reflect only what is truly needed. As an example, someone may move into Twenty11 paying 75% of market rent. Ten months into their one-year tenancy, they lose their job and are unable to keep up with payments – at the 12-month review stage, rents are adjusted to reflect their current financial situation. This policy sets out the detail that will allow us to apply this flexibility in a way that works for our customers.

### **2. Scope**

2.1 This policy covers rent setting arrangements for all residential properties owned and managed by Twenty11. The policy includes arrangements for setting rents for homes that are at a discount to market rent (discounted rent) and for homes that are at market rent.

### **3. Policy statement**

3.1 Twenty11 is a wholly owned subsidiary of Red Kite with a similar charitable purpose to Red Kite. It exists to provide homes at a variety of rentals to meet people's individual circumstances and to meet local housing needs.

3.2 As a community benefit society, most homes offered by Twenty11 will be a discounted rent meeting the definition of a charitable home (i.e. at less than 80% market rental). Some homes will be offered at market rental.

3.3 Twenty11 will also for a short period of time offer homes at an exceptional discounted rent of as low as 40% rental under exceptional circumstances (see section 8).

3.4 All homes will be let on appropriate Assured Shorthold Tenancies.

### **4. Rent setting aims**

4.1 In setting rents, Twenty11 will ensure that it:

- Sets its rents according to this policy.
- Delivers efficient use of funds to produce the maximum number of homes for its tenants and potential tenants at a range of household incomes, by providing the level of subsidy required by the household to make the rent relevant and affordable to individual circumstances.
- Applies increases in accordance with the terms of our tenancy agreements and 5.4, 5.13 and 6.4 below
- Builds up reserves to cover future maintenance and improvements costs

- Maintains adequate financial reserves to ensure Twenty11's long term financial wellbeing and stability.

## 5. Discounted rents

- 5.1 On application to Twenty11 for a discounted rental property a potential tenant will be assessed as to whether they will benefit from an income based discounted rent. Their eligibility will depend upon their personal circumstances (see further details below). The first issue will be to determine whether the tenant is in work or out of work and in receipt of Universal Credit. Applicants out of work and eligible for Universal Credit will be offered a tenancy at a Capped LHA rental (the minimum of LHA and 70% market rental for the property). This level still implies a discount on the rent to lower than 80% of market rental.
- 5.2 For those applicants in work a calculation will be made to see whether they would be entitled to an income based discounted rent. In this calculation their family make up and the net income of the household will be taken into account (see 5.5 and following below for the calculation method). In the case of their net household income less the JRF MIS for that household being less than 50% of market rental they will be offered a tenancy at a capped LHA rental. Applicants where the outcome indicates a rental above 80% market rental will not be eligible for a discounted rental property.
- 5.3 New tenants who accept a home offered on either basis (income based discounted rent or capped LHA rental) will be granted a fixed term tenancy for one year initially (the starter period). After the starter period they may be offered a further Assured Shorthold Tenancy at a discounted rent, but the rent will be re-calculated to reflect their circumstances. This however is subject to them providing the necessary information on which to calculate the discounted rent. Where this is not provided the tenancy may not be renewed or offered for renewal at market rental at the discretion of Twenty11.
- 5.4 For existing tenants coming to the end of a fixed term tenancy (providing they are not disqualified from applying for a new tenancy) the same calculation process will be undertaken again to determine their rent with one important difference (as described in 5.5 below).
- 5.5 For tenants coming to the end of a tenancy granted on a Capped LHA Rental and have obtained a job (or who in the middle of a tenancy are on a Capped LHA rental and have obtained a job and want to apply to move to an income based discounted rent) the following test will apply. We will calculate whether they would be eligible for an income based discounted rent. If the outcome is that they would be and the rental is lower than the Capped LHA Rental we will then consider (including benefits) whether they would be at least £20 better off per month by being put on an income based discounted rent (so two calculations will need to be made and under both we would need to consider the impact of benefit entitlement on their household income). If not we would keep them on a Capped LHA rental. In every other circumstance where an income based discounted rent between 50% and 80% of market rental is indicated the renewing tenant will be offered this discounted rent (as an option to remove the need to claim housing benefit related payments and we will then support this process). As previously where the calculation is below 50% a capped LHA Rental will apply and where it is above 80% the tenant will only be eligible for a market rental. For those renewing who are already on an income based discounted rental the process will be exactly the same as if they were applying for a Twenty11 home for the first time.

- 5.6 All rents will increase annually by the preceding September CPI +1% on the first Monday in April, with any increase in discounted rents being limited to the Local Housing Allowance.
- 5.7 The calculation of an income based discounted rent is based on a household's net income (their income after tax) and the most recent Joseph Rowntree Minimum Income Standard (JRF MIS – see Definitions) applicable to their particular household composition.
- 5.8 The first step in calculating this is to assess and verify a household's composition and monthly income. For more information on how these Discounted Rent Assessments are conducted, see Appendix 1. The JRF MIS applicable to the household undergoing assessment is subtracted from their verified income.
- 5.9 The amount of money left over (after the JRF MIS has been subtracted) is referred to as 'the residual monthly income.'
- 5.10 Residual monthly income is used to set the discounted rent in one of three ways:
- 5.11 The residual monthly income (R) will be compared to Market rent (M). If it is higher than the base rental of (B) = 50%M a rental will be calculated according to the formula  $B + 50\%(R - B)$ .
- 5.12 For new tenants, discounted rent will be capped at 80% of market rental. If, when calculating the Discounted Rent, a rental higher than 80% of market rental is indicated then the potential tenant will not be offered a discounted rental home. They will however be signposted to available market rental homes.
- 5.13 Should a tenant not qualify for a discounted, rent between 50 and 80% of the market rent, and does not want to claim housing subsidy to support rental payments, we can offer a rent that is equivalent to the social target rent of the property. This rent will be offered on completion of an affordability assessment, on the condition that the tenant will not receive housing subsidy and at the discretion of Chief Executive of Twenty11 Homes. This rental charge will be called Target Discounted Rent.
- 5.14 For renewing tenants whose residual income indicate a rent higher than 80%M they will, at the discretion of Twenty11, have the option of staying within the home but at market rental. In that case the home will be reclassified as a non-qualifying home. Alternatively, they could transfer to a market rental home or be referred through Pennvale to an alternative Private Rented Sector property that we are managing. The discounted rental for renewing tenants will be capped at market rental.
- 5.15 Where a home is offered under renewal at a rent higher than 80% of market rental it will no longer be classified as a qualifying tenancy and for that reason from time to time Twenty11 may move homes previously classified as market rental homes to discounted rental homes when they are void to ensure that Twenty11 Homes continue to meet the company's charitable objectives.
- 5.16 Financial assessment: We will re-assess a tenant's circumstances at the end of each tenancy period and re-calculate the level of rent accordingly (this could be the same, or up, or down) for the next tenancy period. We may also re-assess the rent level during the course of the tenancy if circumstances change, such as if additional occupiers join the household. This is in addition to any annual increase based on CPI plus 1%.

- 5.17 If an increase in rent takes place during the course of the tenancy, we will give the tenant at least one month's written notice of the change and set out the amount of rent they will have to pay in this notice and also the date on which the change will be payable from.
- 5.18 The exception to this will be if the rent was calculated wrongly due to misleading information provided by the tenant or their omission of relevant information, either accidentally or deliberately, in which case the increase in rent will normally be back-dated to the start of the tenancy
- 5.19 Twenty11 will conduct a Rent Assessment and, according to the criteria set out in Twenty11's Tenancy Policy, review tenancy conduct not less than three months before the expiry of the fixed term tenancy, to decide whether to:
- Set a new discounted rent and grant a new fixed term tenancy to the same, the length of which will depend upon tenancy conduct but may vary between one year and five years;
  - Set a new discounted rent at the same value and not less should the household circumstances and property valuation remain the same as the previous review period. Set a new discounted rent and grant a new fixed term tenancy of between one year and five years to another property;
  - Offer the tenant the property on a market rental (if the Rent Assessment indicates this);
  - Terminate or not renew the tenancy.
- 5.20 The decision will be based on the conduct of the tenancy, the result of the Discounted Rent assessment and it will be made with reference to the Twenty11 Tenancy Policy.
- 5.21 All tenancies will be brought to an end in line with the terms of the tenancy agreement before a new tenancy is granted (including renewals).
- 5.22 If Twenty11 becomes aware of any tenant having obtained or attempting to obtain a discounted rent and/or tenancy through the use of fraudulent information or deception, we will take appropriate action to bring their tenancy to an end and no subsequent tenancy will be offered. There is no time limit on when this evidence comes to light.

## 6. **Market rentals**

- 6.1 Market rental homes transferred from Red Kite will be advertised at a market rental (although they may at the discretion of Twenty11 be converted to a discounted rent to balance the tenure model). Where offered at a market rent, the rent level will be determined by reference to research data chosen by Twenty11 for this purpose.
- 6.2 Applicants for a Twenty11 market rental home will be required to follow the process determined by the Allocations policy for Twenty11 before being accepted as tenants for a Twenty11 market rental home.
- 6.3 New tenants will be granted an Assured Shorthold Tenancy (normally) of one year with the option to apply for renewal.
- 6.4 Tenants granted a market rental in Twenty11 will be given an ARLA tenancy agreement



6.5 On the anniversary of the tenancy the rents for the homes that are tenanted under the ARLA tenancy agreement (investment properties at market rent) will be increased by the higher of the RPI or 3% with a maximum increase of 7.5%.

## 7. **Appeals**

7.1 There are some circumstances when it may be possible for a tenant to request an appeal of their rent level. The tenant must have provided all information as requested and demonstrate that there has been an identifiable error in our calculation. Please see our appeals procedure for details.

## 8. **Exceptional discounted rent**

8.1 Under certain limited circumstances Twenty11 will consider offering an exceptional discounted rent (with a discount of up to 60% upon market rent) for a period of time for a special reason to a tenant. This will normally be conditional upon the tenant undertaking to agree to certain conditions; the reduction will be time limited and dependant on agreed actions undertaken by the tenant. We would not offer a significant number of tenancies at an exceptional discounted rent at any one time and in any case normally no more than 5% of Twenty11 tenancies.

8.2 EDR will not automatically be set at 60% discount to market rent, this is a limit and it may be set at a lower discount depending upon the tenants' changed means.

8.3 EDR will only be considered where the tenant has requested it and has outlined the circumstances that lead to this request including:

- The reason that the tenant temporarily will find it difficult to pay the full rent
- What the tenant is doing in the meantime to improve his/her income so that he/she will be able to pay full rent
- Transparency on how long the situation is expected to continue

8.4 EDR will only be considered where the rent account is not over 4 weeks in arrears.

8.5 All requests for EDR can only be granted if above conditions are met and with the approval of the Chief Executive of Twenty11.

## 9. **Financial hardship**

9.1 Twenty11 acknowledge that cases of financial hardship, such as onerous debt repayment obligations, may affect a tenant's ability to afford their rent. We also acknowledge that cases of financial hardship are unique to the individual tenant concerned. Consequently, our discounted rent assessment deliberately does not take debt repayment into consideration.

9.2 In order to support tenants experiencing financial hardship, Twenty11 will engage debt and money advice services for tenants (free of charge) in order to provide tailored support to individual tenants.

9.3 In very exceptional cases, to be determined by an appropriate senior manager designated by the CEO, where a tenant in one of our market rental properties suffers exceptional financial hardship, consideration may be given to options such as offering a different tenancy on a discounted rent.

10. **Responsibilities**

10.1 **Twenty11 Board** is responsible for approving this policy annually.

10.2 **Group Director of Resources** is responsible for annually reviewing the policy and recommending it to the Board.

10.3 **Heads of Relationship & Business** are responsible for the implementation of any policy amendments.

11. **Legal framework**

11.1 Welfare Reform and Work Act.

11.2 Housing Act 1988.

## Appendix 1 Discounted Rent Assessment Method

In order to calculate a discounted rent, Twenty11 will conduct a discounted rent assessment. The aim of the assessment is to validate the tenant's household composition (the identity and residency of the tenant and those who live with them) and the household's income.

New Twenty11 tenants (see definitions, page 3) will be invited to meet with a member of staff to discuss their individual circumstances and the rent options available to them. This meeting will also present an opportunity for tenants to access free debt and money advice.

Those residents Twenty11 believes to be eligible for a discounted rent will be asked to bring the documentation required to conduct the discounted rent assessment with them (as set out below). This may be online or via prescribed documents. We might as part of this process require authorisation to approach agencies (banks, employers etc. to validate assessments). It is the tenant's responsibility to provide evidence of their household's income to Twenty11's satisfaction. Tenants are encouraged to bring any documentation (additional to that requested below) they feel best demonstrates their household income, where they feel this is necessary. In all cases, Twenty11's decision regarding the validation of a household's income will be final:

### 1. Household Composition Validation

Proof of identity and residency at your Twenty11 address is required for each household member. For adults, at least one of the following forms of proof of identity and proof of residency is required (a single document will not be accepted as proof of both identify and residency and at least two documents from the list below, one from each list, must be provided):

#### Adults

##### Identity

- Current signed passport
- Current UK or EEA photo-card driving licence
- Freedom pass
- Residency permit or Home Office alien registration card

##### Residency

- Current UK photo card driving licence (full or provisional)
- Current paper UK driving licence (full)
- Notification letter from Benefits agency / other Government agency confirming the right to benefits or pension (issued within the last 6 months)
- HMRC Tax Notification letter / Assessment letter or Statement of Account
- Local Authority Tax Bill (issued within 6 months or valid for current year)
- Statement or letter from Bank / Building Society / Credit Card / Mortgage / Life Insurance (issued within the last 6 months).
- Utility Bill (not a mobile phone bill - issued within the last 6 months)
- TV licence (valid for the current year)
- Vehicle tax renewal document

For each child household member, one of the following forms of proof of parent or guardian/child relationship is required:

- Birth certificate/hospital record showing the child's parent(s)
- Court-approved adoption papers (with signature or seal)
- Court-approved letters of guardianship (with signature or seal)
- Adoption Placement Agreement and Petition for Adoption
- Court child support order that shows the child's parent(s)

## **2. Household Income Validation**

For each adult household member one of the following proofs of income is required:

### **Employed**

- five most current wage slips in a row if paid weekly or
- three wage slips in a row if paid every two weeks or
- two wage slips in a row if paid monthly

### **Self Employed**

- audited accounts for the last financial year or
- a trading summary if you have only recently started trading

### **In receipt of benefits**

- an original notification letter.

Staff roles listed in the **Competency Standards section** must be acquainted with contents of this document and have had documented instructions and training on its use. Authority to amend can only be undertaken by the **Process owner** with the relevant **Delegated approvals**.

For information on interpretations and instructions staff should contact the **Subject Matter expert** or **Process owner** and under no circumstances should any deviation be permitted without prior approval as above.

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