

APPENDIX A

North Yorkshire Council Landlord Services – Rent Setting Policy DRAFT

Version	Development stage	Descriptions	Key Changes Implemented
1	Initial Draft	Preliminary version of the policy document developed.	Baseline content created outlining the policy's purpose, scope and initial provisions.
2	Internal consultation	Circulated for internal review, including legal and departmental stakeholders, for feedback.	Feedback received from relevant officers and departments, including Legal and Finance, with comments documented and addressed.
3	Second internal consultation	Edited draft with implemented feedback re-circulated to internal officers for approval.	Minor changes to language, with key policy points approved.
4	Tenant consultation	Circulated for review from Involved Tenants on transparency and readability	Minor changes to language for clarity.

1. Introduction

This policy outlines North Yorkshire Council's approach to setting the rent charged for its Social Rent, Affordable Rent and Shared Ownership properties, in accordance with legislative and regulatory requirements. The approach used differs between tenures and is subject to any specific conditions within the individual tenancy agreement and/or lease.

2. Scope

This policy applies to General Needs and Supported Housing properties which sit within the Council's Housing Revenue Account, and which are charged Social Rent or Affordable Rent, or are part of the Shared Ownership scheme. This includes existing and new-build Council dwellings, as well as any property acquisitions assimilated into the Council's housing stock. The policy does not apply to temporary accommodation, rented garages, or to any assets which exist outside of the Council's Housing Revenue Account.

Service charges are always included in Affordable Rent calculations but are identified separately from the rent charge on Social Rent and Shared Ownership homes. As such, service charges for Social Rent and Shared Ownership

properties are out of the scope of this policy, and will be covered instead in a separate policy to be developed as part of the Council's Housing Improvement Plan.

3. Key Principles

The main aims of this policy are:

- To ensure that rents for homes owned and managed by North Yorkshire Council are set in accordance with statutory and regulatory obligations, which help to protect rent affordability for social housing tenants.
- To ensure that rents are set at a level which allows the Council to remain financially viable as a social landlord, meet tenants' needs, and grow its housing stock while ensuring its existing stock is maintained at a high standard.
- To provide a clear framework for North Yorkshire Council's approach to setting Social Rent, Affordable Rent and Shared Ownership Rents, on existing and new-build Council dwellings, and on any property acquisitions that are assimilated into the Council's housing stock.

4. Associated Frameworks and Legal and Regulatory Compliance

As a Registered Provider, the Council must set and increase Social and Affordable Rents in accordance with the government's Policy Statement on Rents for Social Housing (2026) and the Regulator of Social Housing's Rent Standard (2026). These documents are designed to provide stability for social housing providers while ensuring appropriate protection for tenants.

The Regulator of Social Housing has delegated powers from the Ministry of Housing, Communities and Local government, under which it monitors and enforces compliance with the Rent Standard. As such, North Yorkshire Council follows the standard and the accompanying government guidance in calculating and making any changes to its Social and Affordable Rents.

Shared Ownership property rents are set in accordance with Homes England's requirements for funding. Homes England is a government agency responsible for the distribution and management of funding for the delivery of a range of housing, and North Yorkshire Council follows its Capital Funding Guide (2016, updated 2026) when setting and making any changes to its Shared Ownership Rents.

5. Social Rent Setting

Since 2001, rents for Social Rent properties have been set based on a formula issued by the government, which is included in its regulatory guidance. The aim of using a formula is to ensure that similar rents are charged on similar Social Rent properties. Following this approach produces a 'formula rent' for each property, calculated based on the relative value of the property, average local income levels, and the number of bedrooms.

Details on how formula rent is calculated can be found in the appendix at the end of this document.

5.1. Rent caps

Rent caps, published by the government, apply as a maximum ceiling on formula rent, based on the number of bedrooms in the property. If the formula rent calculation is higher than the rent cap for a property of a particular size, the rent cap will be used instead. From 2026-27 onwards, the government's rent caps will increase by Consumer Price Index (CPI) (as of September of the previous year) + 1.5% annually.

5.2. Initial rent

When a new tenancy begins in one of its Social Rent homes, the Council can set the initial rent to a level that is no higher than formula rent, subject to the rent flexibility level. As such, when one of the Council's existing Social Rent properties become available for re-let, rents will be checked to ensure they are set correctly. Where rents are set at below formula rent, they will be increased to formula rent upon re-let. If the property is being re-let to an existing tenant, however, the rent will not be re-set. An existing tenant, in this context, means one to which a tenancy of the property in question is not being granted for the first time. This includes:

- individuals to which a secure tenancy is granted as a result of the end of an introductory or flexible fixed term tenancy;
- individuals to which a tenancy is granted following a change from a joint tenancy to a sole tenancy, or from a sole tenancy to a joint tenancy;
- individuals whose tenancy has been transferred to the Council from another Registered Provider following the sale or stock transfer of the property in question.

Where a tenancy is assigned in a mutual exchange under Section 92 of the Housing Act 1985 or in other circumstances (e.g. to a family member), or when a tenancy is inherited after a death (succession), the rent will not be re-set.

The government allows Registered Providers the flexibility to set rents at up to 5% above formula rent on General Needs properties, and up to 10% above formula rent on Supported Housing properties, where there is a clear rationale for doing so. This decision must take local circumstances and affordability into account. North Yorkshire Council reserves the right to apply this flexibility where it can give a clear and fair justification for doing so.

5.3. Changes to rents

The government permits annual rent increases of up to CPI + 1% for existing tenants on Social Rent. This will remain the case for rent increases applied over the next ten years, starting 1 April 2026, unless the new rent amount would exceed the rent flexibility level (5% or 10%) for the year in which the rent increase would apply. In this case, the Council is only permitted to increase rent by up to CPI.

The Council will review rents annually, with any changes subject to Council approval as part of the Housing Revenue Account budget. Tenants will be informed in writing of any changes to their rent and how it has been calculated, with a minimum of four weeks' written notice prior to any increase taking effect.

6. Affordable Rent Setting

Affordable Rents are calculated differently from – and are usually higher than – Social Rents. Affordable Rent, which equates to 80% of the value of local market rents (inclusive of applicable service charges), was introduced to enable social landlords to generate additional capacity for investment in new affordable housing. Affordable Rent may be charged on Council-owned and -managed properties in line with funding agreements made on specific new-build or acquired properties. These agreements support the financial viability of Council housing development.

6.1. Initial rent

As per government regulation and guidance, the Council will set Affordable Rents at no higher than 80% of market rent valuations, inclusive of any applicable service charges.

Market rent is assessed according to the individual property and the rent for which it might reasonably be expected to be let in the private rented sector,

based on property size, location, type and service provision. Market rent valuations for Council homes will be carried out in accordance with a method recognised by the Royal Institute of Chartered Surveyors (RICS), as stipulated by the Regulator of Social Housing.

In cases where Affordable Rent is calculated to be below formula rent for a given property, the Council will instead charge a Social Rent. The Council will also cap rent levels at a level below 80% of market rent if there is a rationale for doing so, based on local market context. If, for example, Affordable Rent is calculated to be above the applicable Local Housing Allowance (LHA) rate, rents will be capped at the LHA rate.

When a property is re-let, Affordable Rents will be re-set to ensure they are no higher than either 80% (including service charges) of market rents or formula rent, whichever is highest. If the property is being re-let to an existing tenant, the rent will not be re-set. An existing tenant, in this context, means one to which a tenancy of the property in question is not being granted for the first time. This includes:

- individuals to which a secure tenancy is granted as a result of the end of an introductory or flexible fixed term tenancy;
- individuals to which a tenancy is granted following a change from a joint tenancy to a sole tenancy, or from a sole tenancy to a joint tenancy;
- individuals whose tenancy has been transferred to the Council from another Registered Provider following the sale or stock transfer of the property in question.

Where a tenancy is assigned in a mutual exchange under Section 92 of the Housing Act 1985 or in other circumstances (e.g. to a family member), or when a tenancy is inherited after a death (succession), the rent will not be re-set.

6.2. Changes to rents

Government legislation permits annual rent increases of up to Consumer Price Index (CPI) + 1% for existing tenants on Affordable Rent. This will remain the case for rent increases applied over the next ten years, starting 1 April 2026.

When setting and reviewing Affordable Rents, North Yorkshire Council will consider the local market context when deciding whether to implement a rent

increase and the level of that increase, as well as the relevant Local Housing Allowance (LHA) rate for each property and area.

The Council will review rents annually, with any changes subject to Council approval as part of the Housing Revenue Account budget. Tenants will be informed in writing of any changes to their rent and how it has been calculated, with a minimum of four weeks' written notice prior to any increase taking effect.

7. Shared Ownership Rent Setting

Shared Ownership allows a household to buy a share in a certain property (between 10% and 75% of its full market value) and pay subsidised rent to the Council on the remaining share. The Council will set its Shared Ownership Rents in accordance with the terms of the individual lease.

7.1. Initial rent

In line with government requirements, the initial rent on a Shared Ownership property should be calculated on an annual figure capped at no more than 3% of the unsold equity. However, Homes England encourages providers to use the figure of 2.75% of the value of the unsold equity for initial rent setting purposes. North Yorkshire Council will use the figure of 2.75% as a maximum cap when setting initial rents.

This figure will be calculated based on the full market value of the property, assessed as the price a 100% interest in the lease would be expected to fetch. This information will be obtained through a valuation from a Royal Institution of Chartered Surveyors (RICS) qualified and registered valuer at the point of initial sale of a Shared Ownership home.

When setting and reviewing Shared Ownership Rents, the Council will also consider the affordability of the total housing expenditure to residents, including the mortgage costs, rent and any service charges.

Upon resale, rents will be set at the same level as they were in the previous lease if the resale is based on the same ownership percentage.

7.2. Changes to rents

Since October 2023, Homes England has permitted annual rent increases of up to Consumer Price Index (CPI) + 1% for grant-funded Shared Ownership properties delivered through its relevant funding programmes. Where CPI is -1% or below, then a maximum of 0% rent increase applies. These rules only apply to

leaseholders who have purchased a share of their homes through the Right to Shared Ownership scheme on or after 12 October 2023.

North Yorkshire Council will follow the government's annual rent increase regulations in all future Shared Ownership leases, regardless of whether each property was delivered with the relevant Homes England funding. For new leaseholders, Shared Ownership Rents will increase by a maximum of CPI + 1% each year, unless CPI is -1% or below, in which case rents will not increase. Existing leaseholders should refer to their individual lease for information on how their rents will change.

Leaseholders who bought a share of their homes before April 2026 should refer to their individual lease for information about how their initial rent was set and how it will increase annually. Details on purchasing additional shares in a Shared Ownership home and thereby reducing the amount of rent paid (staircasing) can be found in the Council's Shared Ownership Policy and in the individual lease.

The Council will review rents annually, with any changes subject to Council approval as part of the Housing Revenue Account budget. Leaseholders will be informed in writing of any changes to their rent and how it has been calculated, with a minimum of four weeks' written notice prior to any increase taking effect.

8. Future Changes to Rent Setting

On 2 February 2026, the Regulator of Social Housing published its revised Rent Standard, which now includes a convergence mechanism to address the gap between current rents and formula rents. This will allow the Council and other Registered Providers to increase weekly rents for Social Rent properties that are currently below formula rent, by an additional amount on top of the CPI + 1% annual increase.

From 1 April 2027, Social Rents will increase by up to CPI (as at September of the previous year) + 1%, subject to the rent flexibility level for the year. If a property's weekly rent when increased by CPI + 1% is below formula rent for the year in which the rent increase will apply, weekly rent may be increased by an additional £1 over and above CPI + 1%. However, if the weekly rent when increased by an additional £1 exceeds formula rent for the year in which the increase will apply, weekly rent can only be increased to formula rent.

From 1 April 2028, the same annual increase rules will apply, except that where a property's weekly rent when increased by CPI + 1% is below formula rent for the year in which the rent increase will apply, weekly rent may be increased by an additional £2 (rather than £1) over and above CPI + 1%. This increase will also be capped at formula rent levels for that given year.

Implementation of these upcoming changes will be fully addressed when this policy undergoes an initial review in one year. Adopting rent convergence will enable the Council to ensure equitable rents are charged for its Social Rent properties and ensure that the rents charged cover the full cost of managing and maintaining stock, supporting the long-term sustainability of the Housing Revenue Account.

Rent setting regulation may be further amended by future legislation or government policy. The Council will update this policy accordingly and communicate any significant changes to tenants through its usual channels.

9. Performance Monitoring

North Yorkshire Council is committed to transparency, accountability and continuous improvement in the delivery of its services. The Regulator of Social Housing requires all Registered Providers to maintain robust internal controls and high-quality data to ensure compliance with the Rent Standard, and to provide assurance to the Council, tenants and the Regulator that rents are being calculated and charged correctly.

Alongside regulatory returns, the Council will complete annual internal audits of its rent setting process while the three housing management areas continue to operate on different systems, to ensure consistency and reduce the risk of error. Once the Council has moved to a single housing management system, a risk-based review will determine the future frequency of internal audits.

In addition to internal monitoring and regulatory returns, the rent setting process will be independently reviewed through external audits on a three-year cycle, unless significant changes in government policy require this cycle to be adjusted.

10. Communication and Tenants' Voice

A copy of this policy can be found on the Council website and can be requested in PDF format or hard copy. An easy read version will also be available. If needed in a different format, please let the Council know and all reasonable efforts will be made to provide this. The policy will regularly be promoted to tenants via the Council's communication channels including via the tenant's newsletter.

11. Equalities Statement

The Council will ensure that this policy is applied fairly and consistently to all tenants and leaseholders. An equality assessment was carried out during the development of this policy. This concluded that the implementation of this policy

will not have any negative impacts. The Council will take individual circumstances and the diverse needs and vulnerabilities of our tenants into account as far as possible when applying this policy – within the restrictions placed by relevant legislation.

12. Policy Review

This policy will undergo an initial review after one year, followed by a review every three years by the Service Improvement Team to ensure alignment with legislative, regulatory, and best practice developments. Where necessary, interim updates may be made outside of the scheduled review cycle to maintain the policy's relevance, fairness, and effectiveness, particularly in response to new legislation or regulatory changes.

Last updated:

Approved:

Review Date:

13. Contact

For comments or complaints about a service or to request compensation please contact us via the [website](#), phone: 0300 131 2131, or in person at any of the Council offices.

Appendix: Social Rent Setting Methodology

Rent on properties to be let at Social Rent must be set at a level that is no higher than formula rent (subject to rent flexibility).

The basic weekly formula rent (over 52 weeks) is equal to:

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

The national average rent means the average rent cost in England in April 2000.

Relative county earnings means the average manual earnings for the county in which the property is located, divided by the average manual earnings in England, both at 1999 levels.

Relative property value means an individual property's value divided by the average property value in England, as at January 1999 prices.

The relevant figures for calculating formula rent are:

- The national average rent that must be used, for April 2000, is £54.62.
- The national average property value to be used, for January 1999, is £49,750.
- The national average manual earnings data to be used, for 1999, is £316.40.
- The North Yorkshire earnings data to be used is £299.60

The prescribed bedroom weighting is:

Number of bedrooms	Bedroom weight
Bedsit	0.8
1	0.9
2	1.0
3	1.1
4	1.2
5	1.3
6 or more	1.4

Calculating formula rent requires a consistent approach to property valuations. These will be done in accordance with a method recognised by the Royal Institution of Chartered Surveyors (RICS) and will be made at January 1999 prices, in line with regulatory guidance. The Council may re-value properties where major works have been carried out, such as the addition of an extra room, extensions or other structural alterations.

Once formula rent for 2000-01 has been calculated, it must be adjusted to the relevant year, using the inflation levels published by the government. The rent is then adjusted annually by a maximum of CPI (at September of the previous year) + 1%.

Social Rent caps for 2026-27 are:

Number of bedrooms	Weekly rent cap
1 and bedsits	£204.35
2	£216.35
3	£228.36
4	£240.37
5	£252.39
6 or more	£264.41

From 2027-28, rent caps will continue to increase by CPI (at September of the previous year) + 1.5%.